The Economist

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Big is back

The return of the corporate giant

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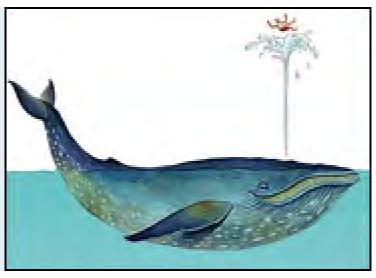
Corporate giants were on the defensive for decades. Now they have the advantage again: leader



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Politics this week

Aug 27th 2009
From The Economist print edition

After **Afghanistan's** presidential election on August 20th, both Hamid Karzai, the incumbent, and Abdullah Abdullah, his main challenger, claimed to be heading for victory. Dr Abdullah also alleged large-scale electoral fraud on behalf of his opponent. There were some 400 insurgent attacks on polling day, and turnout in the troubled south was low. On August 25th the country suffered its deadliest attack for a year, a bombing in the southern city of Kandahar that killed 43 people. See article

Spokesmen for the **Pakistani Taliban** said the group had chosen a new leader, Hakimullah Mehsud, following the death in a drone attack of its former chief, Baitullah Mehsud. Pakistani officials, however, claimed that Hakimullah Mehsud was also dead, killed in a shoot-out with rivals for the leadership. See article

Sri Lanka's government resisted new calls for an international inquiry into the conduct of its troops in the last months of its victorious war over the Tamil Tiger rebels earlier this year. Video pictures emerged apparently showing Sri Lankan soldiers killing unarmed, bound and naked prisoners. The government said the pictures were fabricated.

China launched a scheme to encourage the voluntary donation of human organs, admitting that two-thirds of organs currently used in transplant operations come from executed prisoners.

Risking a setback in its recently improved relations with China, **Taiwan's** president, Ma Ying-jeou, approved a visit to the country by the Dalai Lama. Tibet's exiled spiritual leader is to meet survivors of Typhoon Morakot.

A **Malaysian** court ordered the review of a sentence of caning given to a woman caught drinking beer in 2007. The case has sparked a debate about the use of Islamic laws in the country.

What did Scotland expect?

AP

A row continued over the Scottish justice secretary's decision to release a Libyan convicted of the 1988 **Lockerbie bombing** on compassionate grounds. Gordon Brown said he had been "repulsed" by the hero's welcome given to Abdelbaset al-Megrahi on his return to Tripoli, but he pointedly stopped short of joining American condemnation of the release. The director of the FBI said Scotland's decision had given "comfort to terrorists" around the world. See article

Forest fires swept across central **Greece**, dangerously near Athens, before being brought under control. Critics accused the government of negligence and of failing to learn from a previous outbreak in 2007.

The prosecutor-general in **Russia** said that Ukrainian troops, including regular soldiers, had fought alongside Georgians in the August 2008 war. Relations between Russia and Ukraine have deteriorated in recent weeks.

Four Russian policemen were killed by a suicide-bomber in **Chechnya**. The Russian north Caucasus has seen a wave of violence in recent months.

Not listening

The de facto government in **Honduras** continued to defy international pressure to restore Manuel Zelaya, the elected president overthrown in June. The United States said it would suspend the issuance of all non-emergency visas in Honduras. The Inter-American Commission on Human Rights criticised the de facto government for "disproportionate" repression of demonstrators and curbs on the media.

Argentina’s Supreme Court ruled that possession of small quantities of marijuana for personal use should not be treated as a criminal offence. The ruling came after Mexico’s Congress approved a law **decriminalising drug consumption**, but not trafficking.

Marina Silva, a senator for **Brazil’s** ruling Workers’ Party, confirmed that she was joining the Green Party. She is likely to stand as the Green presidential candidate in next year’s election, as a rival to Dilma Rousseff, who is backed by President Luiz Inácio Lula da Silva.

A liberal legacy

AP

Edward Kennedy died at the age of 77 after a year-long battle with brain cancer. Probably America’s best-known senator, Mr Kennedy had a lengthy career and for many came to epitomise the liberal wing of the Democratic Party. He ran for president in 1980, taking his boisterous campaign to unseat Jimmy Carter all the way to the floor of the Democratic convention. See article

South Carolina’s lieutenant-governor became the most senior Republican to call on Mark Sanford to step down as governor after his admission earlier this year to an extramarital affair in Argentina.

America’s attorney-general asked a prosecutor to determine if criminal charges should be brought against **CIA** employees who allegedly tortured terrorist suspects. This followed the declassification of a 2004 report into interrogation abuses, which it listed as including blowing cigarette smoke into detainees’ faces until they vomited. Critics said defining “torture” this way was ridiculous. See article

America’s **Evangelical Lutheran** church voted to allow gays and lesbians in long-term relationships to serve as members of the clergy, the largest mainline Protestant denomination to do so.

Here’s hoping

After talks in London between America’s envoy to the Middle East, George Mitchell, and the **Israeli** prime minister, Binyamin Netanyahu, the two sides agreed that they were “getting closer” to an agreement on the issue of Israel’s settlements on the West Bank. Meanwhile, Salam Fayyad, the Palestinian prime minister, published a unilateral plan for Palestine to become a de facto state.

In **Iraq**, the return of widespread bombings in Baghdad and elsewhere by insurgents led to the unravelling of the governing Shia coalition. The leading Shia party, the Islamic Supreme Council of Iraq, withdrew its support for the prime minister, Nuri al-Maliki, undermining his chances of re-election next January. See article

AP

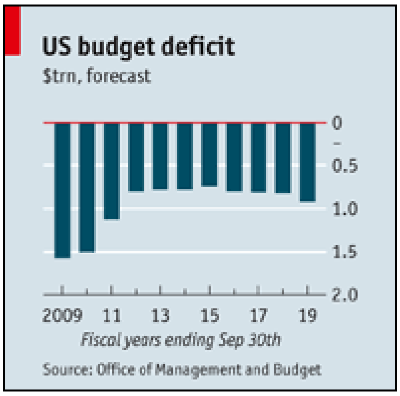
A court in **Iran** held a fourth televised trial of opposition activists in the wake of the disputed June 12th presidential election. The charges implicated two reformist parties and two former presidents. But Iran’s supreme leader, Ayatollah Ali Khamenei, said he had seen no evidence to back prosecutors’ claims that the defendants were acting on behalf of foreign powers. See article

Business this week

Aug 27th 2009
From The Economist print edition

Barack Obama nominated **Ben Bernanke** for a second term as chairman of the Federal Reserve. George Bush appointed Mr Bernanke in 2006, and there had been some speculation that Mr Obama might remove him. Several Democrats in Congress have criticised Mr Bernanke for being too timid in his response to the financial crisis, though a recent Bloomberg poll found that 75% of investors worldwide approved of his handling of it. See article

The White House released its mid-year **budget review**. It reduced its estimate for this fiscal year's deficit by $262 billion, to $1.58 trillion (mostly because some money set aside for bailing out financial companies is no longer required), but increased its projection for the total deficit over the next ten years by $2 trillion. Unemployment was forecast to hit 10% by the end of 2010; the economy was predicted to grow by 2% next year. See article



The key to the economy

Sales of previously owned **homes in America** rose by 7.2% in July compared with June, the biggest jump since 1999, as buyers took advantage of cheaper prices and a glut of foreclosed properties. Sales of new homes increased by 9.6%, the fourth consecutive monthly advance.

At a hearing in New York, a federal judge pushed the **Securities and Exchange Commission** for an explanation of why it had not pursued **Bank of America** over allegations that BofA misled investors about bonuses paid to executives at Merrill Lynch around the time it took over the investment bank. The SEC has reached a settlement with BofA, under which it is fined $33m but neither admits nor denies wrongdoing. The judge found this "puzzling".

Nicolas Sarkozy and **France's biggest banks** announced new rules on the way traders are paid as part of a wider clampdown on bonuses in the financial sector. The French president said he would not unilaterally cap bonuses as it would put France at a disadvantage when attracting talent, but warned bankers not to expect their pay to be "a game where you always win". Meanwhile, Lord Turner, the head of Britain's financial regulator, said he (unofficially) supported the idea of a **global tax** on financial transactions to help curb excessive salaries. See article

Spain's **Banco Santander** offered to buy back €16.5 billion ($22.5 billion) worth of mortgage- and asset-backed securities, a huge boost to Europe's securitised-bond markets.

The German government pressed **General Motors** to reach a decision on the future of **Opel**, the carmaker's European arm, which employs 25,000 workers in Germany. It supports a proposal to sell a majority stake in Opel to Magna International, an Austrian-Canadian car-parts supplier, with strong provisions attached that protect German jobs. See article

Heading for the scrapyard

The month-long **"cash-for-clunkers"** programme ended in America. Just over 690,000 old, gas-guzzling cars were traded in under the scheme, which cost $2.9 billion of public money. The Toyota Corolla was the most popular new car purchase; the Ford Explorer four-wheel drive topped the list of models traded in.

TeliaSonera, the largest telecoms operator in the Nordic region, tightened its grip on its assets by offering to buy the remaining shares in two subsidiaries in which it has stakes in **Estonia** and **Lithuania**. The deal is a fillip for the Baltic countries, which have seen their economies slump.

A.P. Moller-Maersk delivered a gloomy forecast about its prospects for the rest of the year. The Danish shipping line, the world's biggest, recorded a first-half loss as freight rates fell sharply. Separately, a measure of **world trade volumes** compiled by a Dutch agency grew by 2.5% in June compared with May, the largest increase in a year.

Procter & Gamble decided to sell its pharmaceuticals division in a $3.1 billion deal, and so refocus its consumer-health business on non-prescription drugs. The buyer is **Warner Chilcott**, which makes birth-control pills among other things, and recently moved its registered country of residence to Ireland.

A group of bondholders at **Tribune**, America's second-biggest newspaper publisher, and counts the *Los Angeles Times* among its titles, took the first legal steps to investigate Sam Zell's buy-out of the company, which, they argue, eventually caused it to seek bankruptcy protection.

Christmas presence

Sony unveiled its **Daily Reader**, a device it hopes will challenge Amazon's Kindle in the electronic-book market. Sony's gadget will go on sale in America in December, at a price of $399. See article

KAL's cartoon

Aug 27th 2009
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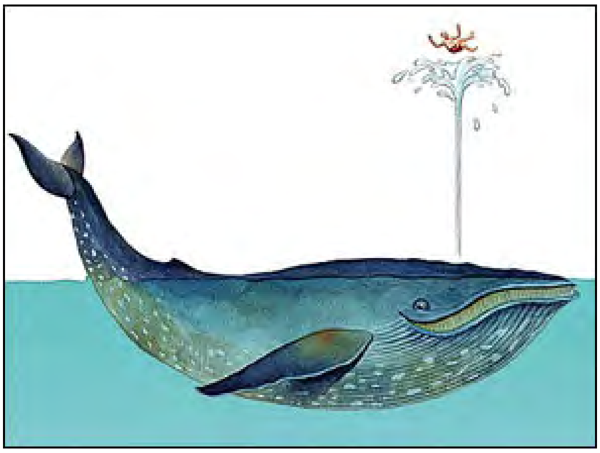
Company size

Big is back

Aug 27th 2009
From The Economist print edition

Corporate giants were on the defensive for decades. Now they have the advantage again

Illustration by Jon Berkerly



IN 1996, in one of his most celebrated phrases, Bill Clinton declared that "the era of big government is over". He might have added that the era of big companies was over, too. The organisation that defined capitalism for much of the 20th century was then in retreat, attacked by corporate raiders, harassed by shareholders and outfoxed by entrepreneurs.

Great names such as Pan Am had disappeared. Others had survived only by dint of huge bloodletting: IBM sacked 122,000 people, a quarter of its workforce, between 1990 and 1995. Everyone agreed that the future lay with entrepreneurial start-ups such as Yahoo!—which in late 1998 had the same market capitalisation with 637 employees as Boeing with 230,000. The share of GDP produced by big industrial companies fell by half between 1974 and 1998, from 36% to 17%.

Today the balance of advantage may be shifting again. To a degree, the financial crisis is responsible. It has devastated the venture-capital market, the lifeblood of many young firms. Governments have been rescuing companies they consider too big to fail, such as Citigroup and General Motors. Recession is squeezing out smaller and less well-connected firms. But there are other reasons too, which are giving big companies a self-confidence they have not displayed for decades.

Big can be beautiful...

Of course, big companies never went away. There were still plenty of first-rate ones: Unilever and Toyota continued to innovate through thick and thin. And not all start-ups were models of success: Netscape and Enron promised to revolutionise their industries only to crash and burn. Nevertheless, the balance had shifted in favour of small organisations.

The entrepreneurial boom was supercharged by two developments. Deregulation opened protected markets. Some national champions, such as AT&T, were broken up. Others saw their markets eaten up by swift-footed newcomers. The arrival of the personal computer in the 1970s and the internet in the 1990s created an army of successful start-ups. Steve Jobs and Steve Wozniak founded Apple Computer in 1976 in the Jobs family's garage. Microsoft and Dell Computer were both founded by teenagers (in 1975 and 1984 respectively). Larry Page and Sergey Brin started Google in Stanford dorm rooms.

But deregulation had already begun to go out of fashion before the financial crisis. The Sarbanes-Oxley act, introduced after Enron collapsed in disgrace, increased the regulatory burden on companies of all sizes, but what could be borne by the big could cripple the small. Many of today's most dynamic industries are much more friendly to big companies than the IT industry. Research in biotechnology is costly and often does not bear fruit for years. Natural-resource companies, whose importance grows as competition for resources intensifies, need to be big—hence the mining industry's consolidation.

Two further developments are shifting the balance of advantage in favour of size. One is a heightened awareness of the risks of subcontracting. Toy companies and pet-food firms alike have found that their brands can be tainted if their suppliers (notably, from China) turn out shoddy goods. Big industrial companies have learned that their production cycles can be disrupted if contractors are not up to the mark. Boeing, once a champion of outsourcing, has been forced to take over faltering suppliers.

A second is the emergence of companies that have discovered how to be entrepreneurial as well as big. These giants are getting better at minimising the costs of size (such as longer, more complex chains of managerial command) while exploiting its advantages (such as presence in several markets and access to a large talent pool). Cisco Systems is pioneering the use of its own video technology to improve communications between its employees (see article). IBM has carried out several company-wide brainstorming exercises, recently involving more than 150,000 people, that have encouraged it to put more emphasis, for example, on green computing. Disney has successfully ingested Pixar's creative magic.

You might suppose that the return of the mighty, now better equipped to crush the competition, is something to worry about. Not necessarily. Big is not always ugly just as small is not always beautiful. Most entrepreneurs dream of turning their start-ups into giants (or at least of selling them to giants for a fortune). There is a symbiosis between large and small. "Cloud computing" would not provide young firms with access to huge amounts of computer power if big companies had not created giant servers. Biotech start-ups would go bust were they not given work by giants with deep pockets.

The most successful economic ecosystems contain a variety of big and small companies: Silicon Valley boasts long-established names as well as an ever-changing array of start-ups. America's economy has been more dynamic than Europe's in recent decades not just because it is better at giving birth to companies but also because it is better at letting them grow. Only 5% of European Union companies born since 1980 have made it into the list of the 1,000 biggest in the EU by market capitalisation. In America, the figure is 22%.

…but size isn't really what matters

The return of the giants could well be a boon for the world economy—but only if business people and policymakers avoid certain pitfalls. Businesses should not make a fetish of size, particularly if this means diversifying into a lot of unrelated areas. The conglomerate model may be tempting when cash is hard to find. But the moment will not last. By and large, the most successful big firms focus on their core businesses.

Policymakers should both resist an instinctive suspicion of big companies (see article) and avoid the old error of embracing national champions. It is bad enough that governments have diverted resources into propping up failing companies such as General Motors. It would be even more regrettable if they were to return to picking winners. The best use of their energies is to remove the burdens and barriers which prevent entrepreneurs from starting businesses and turning small companies into big ones.

Africa's population

The lesson from Sodom and Gomorrah

Aug 27th 2009
From The Economist print edition

Africa's fertility rates are falling. Can the continent take advantage?

eyevine

CAREFULLY stepping round another heap of fetid refuse in Sodom and Gomorrah, it is easy to despair of Africa's future. Accra's notorious slum is aptly named. Here, about 30,000 families (no one knows for sure how many) crowd into a warren of hastily thrown-together shacks on the fringes of Ghana's capital: there is no power, sewerage or running water, diarrhoea and other diseases are rife and deadly fires rapidly take hold. It seems to contain all that is wrong with modern Africa—too many people, deep poverty and the failure of inept or corrupt governments to do anything to help. Yet Sodom and Gomorrah also has a more hopeful story to tell.

Africa is undergoing a "demographic transition". As our briefing shows (see article), African women are now following their sisters in Asia and the rich world by bearing steadily fewer children. Admittedly, Africa is lagging behind Asia by about 20 years, and the continent's fertility rates are still high, but the trend is clear. In Mozambique in 1950 a woman had, on average, 6.5 children over her lifetime; now she has five. In Ethiopia the figure has dropped from seven to five; in Côte d'Ivoire it has almost halved from its peak; in Botswana it has more than halved. The only exceptions are war-torn places such as Congo.

HIV/AIDS, killer of mothers and fathers in their prime, is the miserable cause of part of this shift. But more important is the decline in birth rates when people leave the countryside. And the overflowing chaos of Sodom and Gomorrah is part of the fastest urbanisation in history. Africa's rush to the cities is not just changing the location of Africa's populations, it is changing their structure, too.

In Latin America and Asia this transition yielded a huge economic gain, called the "demographic dividend". As birth rates decline, the proportion of children shrinks and the working-age population bulges, as is happening now in Africa. That can kick-start industrialisation. Factories employ low-skilled farmers fresh from the country, which increases productivity and prosperity, which creates demand, and so it goes on. Some studies reckon that demography explains as much as a third of Asia's economic growth.

It is this opportunity that Africa must prepare for. The "dividend" is not automatic. It has to be earned. A productive, healthy workforce could lift large parts of Africa out of poverty, but an expanding cohort of jobless, idle and frustrated young men will create political and social instability. Just think of the riots and deaths sparked by rampaging hordes of youths in Nigeria, Zimbabwe and Kenya.

Success breeds success

There are plenty of reasons to fear the worst. Poor farming and environmental degradation could lead to hunger, poverty and strife. Instability, corruption and family breakdown could break the cycle of industrialisation and growing productivity.

Hence the need to get African policy right: a green revolution to keep rural hunger and poverty at bay; peace and contraception to keep the demographic transition on track; education and better governance to create a workforce able to exploit the chances on offer; and services to help people in slums like Sodom and Gomorrah join the formal economy.

Such desires are hardly new—indeed each stands on its own merits. What is new is the sense of urgency. The demographic dividend comes around only once. Eventually the bulge of energetic, working-age people becomes a bulge of dependent, elderly ones. The transition will pass in a couple of generations—the blink of a demographic eye. Africa must not fumble its best chance at prosperity.

The Federal Reserve

Right man, rough job

Aug 27th 2009
From The Economist print edition

Ben Bernanke's renomination as Fed chairman is good news. But his hardest work lies ahead

AP

HAVING endured weeks of criticism over his plans to reform American health care, Barack Obama urgently needs some friendly headlines. That helps to explain why, on August 25th, the president nominated Ben Bernanke to a second term as chairman of the Federal Reserve, even though Mr Bernanke's first one does not expire until next January. The decision was widely hailed on Wall Street and in Washington, DC. With few exceptions, politicians and economists lined up to praise Mr Bernanke and to laud Mr Obama for keeping him.

The decision was a good one, for two important reasons. The first, on which most commentators have dwelt, is that Mr Bernanke has done a sterling job of dealing with the worst financial crisis since the 1930s. Some of the breathless praise about how this former student of the Depression saved the world from a repeat is overdone. It ignores the fact that Mr Bernanke was complicit in creating the loose monetary conditions which fuelled the financial frenzy in the first place. As a governor of the Fed earlier this decade, he was even more convinced than Alan Greenspan that central banks had no business raising interest rates to head off asset bubbles. Reappointing Mr Bernanke might thus appear akin to paying a plumber all over again for repairing pipes that he fitted after they have flooded your home. Nor, once the crisis struck, was he the only central banker to prove handy with monetary plunger and wrench. The leaders of several other rich-world central banks have also acted boldly.

Nonetheless, Mr Bernanke's academic research gave him an acute appreciation of the risks posed by dysfunctional financial markets. His willingness to experiment with unconventional monetary-policy devices allowed the Fed to counter financial collapse even as America's politicians were paralysed. And his mild, diplomatic manner brought much-needed calm amid the crisis (see article).

The second reason why the renomination makes sense has less to do with Mr Bernanke's strengths than with the dangers of ditching him. The likely alternatives were not obviously superior to the incumbent. Given the broad consensus that he has handled the crisis well, replacing him, especially with an obvious Democrat, would have whiffed of politicisation. True or not, that perception would have damaged the Fed and thus the economy. America's central bank is already in its most parlous political position in generations, under fire from the left for failing to prevent financiers' excesses and from the right for swelling its balance-sheet and overstepping its remit. It is caught up in a furious debate over financial regulation, and has little popular support. According to one poll, Americans think less of the Fed than of the Internal Revenue Service. In this environment, the merest hint of a partisan decision could have been disastrous.

Mr Bernanke's reappointment has defused that danger. But far more perilous times lie ahead. For both

substantively and politically, the tasks over the next four years may be harder than handling the crisis itself. There will be no quick return to business as usual for the Fed or any other central bank (see article). The Fed’s monetary stance must be loose enough for long enough to prevent the economy sinking into a deflationary quagmire, but must be tightened quickly enough to stop inflation soaring. With short-term rates close to zero, this monetary balancing-act must be performed with untested equipment—particularly the swelling and shrinking of the Fed’s balance-sheet—and against a backdrop of steeply rising government debt (see article).

A question of backbone

Politically, the difficulties will if anything be greater. Mr Bernanke must steer the debate over regulatory reform so that the Fed is not left with implausibly broad responsibilities and insufficient tools with which to carry them out. He must explain the logic behind its monetary decisions but stand firm against pressure to influence them. Given that America’s economy is likely to face weak growth and high unemployment for a long time, that will not be easy. For example, the housing industry will cry out if the Fed starts to sell its mortgage-backed securities. And there will be howls from Congress, and maybe the White House too, if interest rates rise when joblessness is still high and the deficit huge.

Mr Bernanke has earned his reappointment by showing that he is a bold and creative crisis-manager. In his second term he will need just as much technical competence as he has shown in his first, and even more political backbone.

The Lockerbie controversy

Friends like these

Aug 27th 2009
From The Economist print edition

There are various possible justifications for the release of the Lockerbie bomber. None is persuasive

AP

CELTIC politicians tend to think and talk in the rhythms and idioms of the church. One such is Kenny MacAskill, the justice secretary in the devolved Scottish administration. When he announced, on August 20th, that Abdelbaset al-Megrahi was to be released on compassionate grounds, later defending that decision in the face of international outrage, Mr MacAskill referred to Scotland's alleged fondness for mercy, and to the "higher" judgment that the terminally ill Libyan faces. On such grounds he justified freeing the only person convicted of the bombing of Pan Am flight 103 above the Scottish town of Lockerbie in 1988. Some believe the real motives for the release were less pure. Either way, it was a mistake.

The avowed case for compassion has some superficial merit. Incarceration has only a doubtful practical purpose at the best of times, and keeping a dying man locked up has almost none. Even if the moral superiority of Scots is questionable, Mr MacAskill's notion that Scotland should show humanity even to its enemies is appealing.

Appealing, but unconvincing. The reason to leave Mr Megrahi in prison was less practical than symbolic. The atrocity of which he was eventually found guilty in 2001 killed 270 people (189 of them Americans). Terrorism is sometimes fuzzily thought to have a sort of intellectual respectability that more banal forms of violence lack. But the Lockerbie bombing was cold-blooded mass murder; Mr Megrahi's crime was worse than that of any other prisoner in Britain. The purpose of jail is to signal society's disapproval and console victims as well as to rehabilitate and deter; and, on moral grounds, Mr Megrahi should have died in one. (The facts that he protests his innocence, that others have doubted the soundness of his conviction and that no full explanation for Lockerbie has ever been found or given are irrelevant: those doubts should be addressed through the judicial process or inquiries, not fudged with appeals to some "higher court".)

Conspiracy, not compassion?

Perhaps, however, Mr MacAskill's moralising is merely rhetorical chaff, thrown up to disguise the realpolitik that lay behind the release. According to this view, Mr Megrahi's freedom was part of a deal or understanding between Britain and Libya, with the Scots acting as obliging facilitators, to further either commercial or security aims. Ministers in both London and Edinburgh deny any such collusion. But recent negotiations and contacts between the British and Libyan governments, including a meeting between Gordon Brown and Muammar Qaddafi, Libya's erratic ruler, and one between Lord Mandelson, the most powerful man in the government after (or perhaps before) Mr Brown, and Mr Qaddafi's son, lend weight to

the suspicions.

As with compassion, a realpolitik case can be made. Drawing Mr Qaddafi into the West's embrace, and keeping him there, has been a longstanding aim of Britain's, and other Western countries', foreign policy. The benefits of Libya's relative domestication have been manifold. It ditched its pursuit of nuclear weapons, co-operated in the fight against al-Qaeda and curtailed its support for other terrorists: reason enough, arguably, for Britain to hand back a dying one.

But those security aims have been achieved, and there would be little point in making such a controversial concession for a prize that has already been won. The only likely additional dividend from Libya's gratitude for the hand-over would be a commercial one, for instance in the country's rich hydrocarbons business—and swapping a mass-murderer for an oil contract would be disgraceful.

There is, thus, no obvious benefit to sending Mr Megrahi home, and there is clearly a cost. Americans are furious. Some Britons have dismissed the anger expressed by American politicians of all stripes on the grounds that the United States, too, has courted Mr Qaddafi (Barack Obama's special envoy to Sudan lavished praise on Libya not long after Mr Megrahi flew home); that it cosies up to unsavoury partners in Saudi Arabia and elsewhere; and that after Abu Ghraib and Guantánamo it is in no position to preach. All may be true, but none invalidates criticism of this action.

Mr Megrahi may be the beneficiary of flawed reasoning by a naive Scottish administration or of cynical manoeuvring by the British government. But whether it was misconceived compassion or myopic conspiracy, his release was wrong.

Afghanistan's presidential election

The vote nobody won

Aug 27th 2009
From The Economist print edition

Helping build a credible government is as important as fighting the Taliban

Reuters

IT IS a measure of how bleak prospects look in Afghanistan that America and its allies have been scrambling to present the presidential election held there on August 20th as a great success. "A bad day for the Taliban and a good day for the people of Afghanistan", cheered Britain's ambassador. In fact, the reverse is true. The task facing the new government and the foreign powers that will back it was always daunting. The election has made it even harder.

The election was not a complete disaster. The Taliban had threatened to scupper it, and failed. The two main candidates campaigned across ethnic lines, and there was a genuinely competitive race. Only 5% of polling stations were inaccessible for security reasons and millions defied threats from the Taliban to cast their ballots. But to count this as success is to aim very low. The process was marred by violence, intimidation, a low turnout and widespread fraud. The outcome will be a government whose legitimacy is seriously wounded from the outset; and a country in renewed danger of fracturing along ethnic and tribal lines.

In parts of the south and east, where the insurgency by the Taliban and other groups is strongest, no more than 5-10% of voters managed to cast their ballots. Some were deterred by the Taliban, who said they would chop off voters' fingers, and around 400 attacks on polling day. Some may have thought voting a waste of time anyway.

After the vote some ballot boxes were stuffed and others stolen. An independent complaints commission is investigating hundreds of allegations of irregularities. Its sister organisation, the election commission, also notionally independent, is widely seen as having been captured by the government. Partly for that reason, many Afghans will regard the election result as a convenient fiction. The most likely winner remains Hamid Karzai, the incumbent president. He may yet have "won" more than 50% of the vote on August 20th. If not there will be a run-off, perhaps in October. The Afghan and foreign forces who will have to secure it must dread the prospect. In theory though, it would offer the chance for a less tainted poll.

If Mr Karzai does win, many in the relatively peaceful north of the country, where voters turned out in large numbers, may feel cheated. Abdullah Abdullah, Mr Karzai's main challenger, is seen as a Tajik, and hence unacceptable to some Pushtuns. The country's largest ethnic group, Pushtuns, make up about 40% of the population, dominate the south and form the Taliban's main support base. Conversely, if Mr Abdullah does emerge as the victor, Pushtuns may feel even more alienated from a government many still regard as dominated by Tajiks.

Whoever wins the presidency, however, will do so facing the suspicion and resentment of much of the

country—even if, in the interests of national unity, the two rivals reconcile. The new government, on past form, would probably then do its best to fulfil the low expectations. Worst would be a cabinet stuffed with warlords being repaid for murky services rendered during the election, with no interest in curbing corruption, or in severing official links with the heroin trade or even in the development that might do most to win it popularity.

Remember Vietnam?

It need not be that way. Afghanistan does have some honest, competent technocrats. And its government has the huge asset of massive foreign support. To many in Afghanistan and abroad it is incomprehensible that the providers of that support cannot exert a greater influence on its behaviour—even, for example, to the extent of staging a credible election.

The lesson of failed counter-insurgency wars everywhere is that they are lost not just because of the insurgents' capacity for violence, but because of the government's incompetence, corruption and unpopularity. In the coming month Western forces may well be beefed up to contain the worsening insurgency. A civilian surge is also needed, to help Afghanistan build a government worth voting for. If the fortune spent allowing Afghanistan to hold this election has helped highlight that need, it may not have been totally wasted.

Economist.com OPINION LETTERS

On sex offenders, Corazon Aquino, Japan, the Lockerbie bomber, German corporate governance, Old Believers, lavatories

Aug 27th 2009
From The Economist print edition

Protecting children

SIR – Thank you for the briefing on sex-offender registries and the struggles we have in Georgia with a law that fails to distinguish between those whose presence in the community represents a real danger and those whose behaviour is culturally or morally inappropriate ("Unjust and ineffective", August 8th). The registries can include rapists as well as teenagers who fell victim to their lust, which not only harms the cause of justice but makes the registries inadequate as tools to protect communities from predators.

Police and prosecutors waste time and resources evicting low-level "sex offenders" instead of monitoring child molesters. Just as states such as Georgia were beginning to realise the need to limit the use of such registries, Congress slipped into the Adam Walsh Act a provision requiring the registration of many juvenile sex criminals who can be readily treated and rehabilitated with therapy.

As one whose duty it is to ensure children are protected from abuse, I would caution my European colleagues to study these issues intensely before adopting their own wide-ranging registries.

Tom Rawlings
State advocate for the protection of children
Macon, Georgia

SIR – Of course high-school trysts don't belong in sex- offender databases, but these fringe cases do not justify your gross indictment of the usefulness of registries. Paedophiles and other sex offenders know no demographic; they operate in all strata of society and often take advantage of trusting relationships in a most sinister fashion. Distilled to its essence, your critique is based on the notion that the quality of information is not perfect. I agree that a man who exposes himself to a woman may not pose the same danger as a convicted child-molester or rapist. All represent a threat, however, so the solution is thus not less information but more detailed information.

Give me the facts about the offence and let me decide the level of risk to me and my family. As the parent of two young children I would like to know who my neighbour is going to be before I buy that new home.

Adrian Kendall
Cumberland Centre, Maine

* SIR – I was left feeling depressed after reading your article. To harm a child sexually has profound and lasting effects and many argue that the law does not go far enough in punishing offenders. A keen sociologist might say that our harsh penalties are the conjugate response to the blatant over-sexualisation of today's youth. An effective approach to reducing sex-crimes may be to address a media that more and more portrays our youth as objects instead of children.

George Crist
Harrisburg, Pennsylvania

* SIR – Young people should be handled delicately. Invoking the heavy hand of the law does not serve justice (for instance, there is a great deal of diversity around the world about what constitutes the legal age of consent). Guidance, not punishment, should be the key. Our increasingly vindictive, punitive intolerance, mixed with public piety, ruins lives, and serves no public good. As you clearly show, it mostly benefits scurvy politicians, and even scurvier tabloids.

William Candler
Opatija, Croatia

Cory Aquino

SIR – I want to respond to your obituary on Corazon Aquino, a former president of the Philippines (August 8th). The freedoms enjoyed today by millions are due in no small part to "Cory" Aquino and "People Power". Her presidency faced formidable challenges, many dating back to colonial rule, which certainly could not be eradicated overnight. President Aquino nonetheless held the country's democracy together under the most difficult of circumstances, all the while running a country and setting in place reforms and institutions that would push the Philippines towards economic recovery.

Therefore, I thought your obituary both mocked and was insensitive to President Aquino and the Filipino people. Not many individuals, of whatever gender, nationality or race, could have done what Mrs Aquino did. This was recognised in the response to her death from world leaders, the international media, and democratic icons around the globe, as well as the hundreds of thousands of people who lined the route of her funeral, just to say goodbye to Cory.

Antonio Lagdameo
Ambassador for the Philippines
London

Japan in the doldrums

SIR – Though I agree that the Japanese face a grim future (falling living standards, rising taxes, etc) unless "the ostrich gets its head out of the sand", your article on the Japanese economy overlooked two important points ("Stuck in neutral", August 15th). First, the extent to which domestic demand is hindered by a psychology of deflation. As a consumer, why buy now when the 20-year general downward trend in prices can be reasonably expected to continue? Why take out a mortgage when the value of your property is more likely to fall than rise? Why invest in new capacity now if it may be cheaper to do so next year? In each case, it is better to wait.

Second, the recommendations included in your "economic rebalancing", although sensible, would probably entail unemployment in Japan being closer to 20% than to, say, 5%. Exactly in whose interest would that be? The apparent lack of popular interest in reform, and the sidestepping of the issue by both major political parties in the run-up to the forthcoming election, suggest that we may not see the ostrich's head for many years. Or at least not until the sand gets unbearably hot.

Oliver Cox
Tokyo

Scotland the brave?

SIR – The Scottish justice secretary's arguments for releasing Abdelbaset al-Megrahi were not only an insult to the 270 victims of the Lockerbie bombing and their loved ones but also an excuse ("A long shadow", August 22nd). Kenny MacAskill has conceded that no other murderer was released on compassionate grounds under his watch. Half a dozen inmates have had their plea for compassionate release rejected in Scotland.

John Boylan
Hatfield, Hertfordshire

SIR – The only thing more excruciating than watching the release of Mr Megrahi to a hero's welcome in Libya was the truly toe-curling performance of Alex Salmond, Scotland's nationalist first minister, proclaiming that this decision had not impaired Scotland's relations with America.

Gathering from the calls that I received at my desk from irate Americans I would respectively suggest Mr Salmond is totally wrong. For once I was very glad to pinpoint my nationality as English and certainly not Scottish or even British. Maybe this is the way forward?

David Doe
Oxted, Surrey

Management in Germany

* SIR – You said that the attack by Children's Investment Fund, a hedge fund, on Deutsche Börse in 2005 furthered Germany's resistance to better corporate governance ("Boards behaving badly", August 8th). Although there is still room for improvement in Germany (boards are too large, meet infrequently, co-determination hinders open discussion) Deutsche Börse had arguably the best corporate governance in the Dax 30. It had an international, knowledgeable supervisory board, a chairman interested in the best possible governance for the company, and board meetings at which critical issues were freely debated and where the chief executive and management team were continuously challenged.

As a small shareholder, TCI was only able to exert so much influence because it convinced other activist funds, such as Atticus, to act in concert with it, but without ever submitting a takeover bid. One might argue that both Werner Seifert, Deutsche Börse's chief executive, and Rolf Breuer, its chairman, were victims of TCI because they played by the rules against an opponent with very different intentions.

Florian Schilling
Board Consultants International
Frankfurt

Religious self-immolation

SIR – By way of analogy, your leader on the concept of heresy in the Muslim world stated that "Russian tsars would burn alive whole communities of ultra-traditionalist Old Believers" ("Where freedom is still at stake", August 8th). Actually, Old Believers burned themselves alive rather than accept ritual changes in the Russian Orthodox church. This was a form of resistance to official pressure to conform to ritual changes, not punishment applied by the state. In a few cases, Old Believers were subjected to corporal punishment, such as having a tongue cut out or being burned at the stake. But in the mass phenomenon you described, immortalised in Mussorgsky's opera "Khovanshchina", death came at the hands of Old Believers.

Nadieszda Kizenko
Associate professor of Russian history
State University of New York, Albany

Loos-ing it

SIR – In keeping with the high spirits of recent letter-writers who embraced your enjoining car superlatives with commodes (Letters, August 15th and 22nd), one might add the "Lotus of latrines" to your list.

William Stepp
New York

* SIR – Hoping this will be the last word on the subject, may I suggest the "Bentley of bathrooms"?

Sanjiv Mehta
Montreal

* SIR – Since this is now dangerously close to a contest, might I chip in with the "Rolls-Royce of rest rooms".

Gautam Patel
Mumbai

SIR – To complete the "heady" humour, may I propose the "clunker of crappers", which aptly describes all the facilities at Heathrow's Terminal 2.

Jon Faraday
Bogis-Bossey, Switzerland

* Letter appears online only

Africa's population

The baby bonanza

Aug 27th 2009 | JABI, SOMALIA
From The Economist print edition

Is Africa an exception to the rule that countries reap a "demographic dividend" as they grow richer?

eyevine

IN JABI village, on the Juba River in southern Somalia, the mothers are mostly girls. They marry as early as 14 and have their first baby soon after. Their duties barely advance them above a donkey: childbearing and rearing, working in the fields, fetching water from the crocodile-infested river, sweeping faeces from the straw huts. Most have been raggedly circumcised. They have no contraception. There is no school. How many women in the village have died giving birth? "We cannot count the number," blurts out Asha Hussein; she and the other women weep.

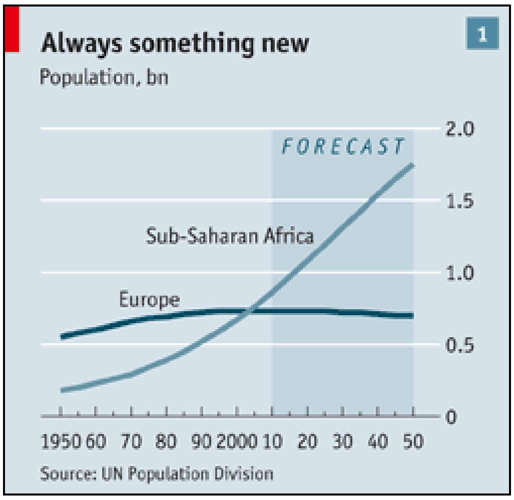
To most people, this is the familiar Africa, a place of large families and high fertility, a continent in which societies are under extreme stress and where the young massively outnumber the old. Teeming, environmentally degraded, ravaged by poverty, hunger, HIV/AIDS and civil war, Africa appears the most plausible candidate ever to suffer a Malthusian disaster.

Yet there is another Africa, an Africa whose people are charting a course more similar to that of the rest of the world: one where they are living longer, having fewer children, and in which more of their children are surviving infancy. Cities are restraining population growth, just as they have in Asia and Latin America. Addis Ababa, Accra, Luanda, may be fetid in parts—shockingly so for those coming from richer countries—but they have low fertility. An emergent African middle class is taking out mortgages and moving into newly built flats—and two children is what they want.

Africa is still something of a demographic outlier compared with the rest of the developing world. Long berated (or loved) as the sleepiest continent, it has now become the fastest-growing and fastest-urbanising one. Its population has grown from 110m in 1850 to 1 billion today. Its fertility rate is still high: the average woman born today can expect to have five children in her child-bearing years, compared with just 1.7 in East Asia. Barring catastrophe, Africa's population will reach 2 billion by 2050. To get a sense of this kind of increase, consider that in 1950 there were two Europeans for every African; by 2050, on present trends, there will be two Africans for every European (see chart 1).

Yet Africa is also starting out, a little late, on a demographic transition that others have already traced: as people get richer, they have fewer children. In 1990 the continent's total fertility rate was over six, compared with two in East Asia. By 2030, according to United Nations projections, the total fertility rate in sub-Saharan Africa could fall to three. By 2050 it could be below 2.5. It is surely

no coincidence that the past 15 years have seen Africa's fastest-ever period of economic growth. Africa, exceptional in so many ways, does not seem to be an exception to the rule that, as countries get richer, they experience a demographic transition.



That could outweigh all the bad news about civil war, desertification and HIV/AIDS. As societies grow richer, and start to move from high fertility to low, the size of their working-age population increases. The effect is a mechanical one: they have fewer children; the grandparents' generation has already died off; so they have disproportionately large numbers of working-age adults. According to a study by the Harvard Initiative for Global Health*, the share of the working-age population will rise in 27 of 32 African countries between 2005 and 2015.

The result is a "demographic dividend", which can be cashed in to produce a virtuous cycle of growth. A fast-growing, economically active population provides the initial impetus to industrial production; then a supply of new workers coming from villages can, if handled properly, enable a country to become more productive. China and East Asia are the models. On some calculations, demography accounted for about a third of East Asia's phenomenal growth over the past 30 years.

Africa's people are its biggest asset. One day, its workforce could be as lusty and vital as Asia's—especially compared with that of necrotic Europe. But there is nothing inevitable about the ability to cash in the demographic dividend. For that to happen, Africa will have to choose the right policies and overcome its many problems. If a country fails to address those problems, then the demographic dividend could become a burden. Instead of busy people at work, there will be restless, jobless young thugs; instead of prosperity, there will be crime or civil unrest.

Africa does not have much time to get things right. The period of greatest potential, when the working-age population is disproportionately large, is not open-ended. In demographic terms, it is just a moment or two. Societies age, and as they do the number of older dependents grows and the moment passes.

Africa has a generation or two to show whether it is, indeed, a demographic outlier as pessimists fear—one in which the dividend turns into a curse—or whether it is able to follow the path blazed by East Asia and reap the benefits of changing population patterns. Can Africa capitalise on the demographic dividend?

Malthus's fears

There are three main reasons for pessimism. The first is that even today it struggles to provide for its people. Africa's population is still growing, remember, even if more slowly because fertility is falling. And it still faces the classic constraints, identified by Thomas Malthus in the 19th century, of land and water.

Africa today produces less food per head than at any time since independence. Farms are getting smaller, sometimes farcically so. Dividing village plots among sons is like cutting up postage stamps. The average smallholding of just over half an acre (0.25 hectares) is too small to feed a family—hence the continent's widespread stunting. Africa's disease burden extends to its animals and crops. Bananas, for example, are subject to two diseases—bunchy top disease and bacterial wilt disease—which can ruin 80% of a harvest. Scientists reckon 30m people who depend on the fruit are at risk; many of them live in conflict zones such as eastern Congo.

If it is to feed its people, Africa badly needs a green revolution. In those parts with plentiful rainfall and rich soil—wet Africa—the prognosis is reasonably good. But in bigger dry Africa, such as in Jabi village, efforts to replicate Asia's green revolution have so far failed. This is partly because Asia used large cropping systems and irrigation, which are unsuited to dry Africa. Partly, it is because African leaders and foreign donors have been almost equally indifferent to smallholder farmers and simple improvements to soil and seeds. Even if policy were right, small farms are slower than large ones to adopt better crops and farming methods.

The task of providing for hungry and thirsty people will be complicated by climate change—a big difference from the demographic transitions in Asia and Latin America. The Intergovernmental Panel on Climate Change thinks Africa will be the continent hardest hit. Even its best-case scenario (an increase in global

temperatures of 1.1-2.9°C by 2100) could be ruinous. Equatorial glaciers will melt and river-flows fall, even as demand for water rises. The United Nations Environment Programme says 75m-250m Africans could go thirsty. That will mean girls will spend longer walking to fetch water which could encourage them to drop out of school and bear children earlier. On some estimates, an area of cultivable land the size of France, Germany, Italy and Britain combined will be ruined. The International Livestock Research Institute says large parts of Africa may soon be too dry for grazing, leading to conflicts between rival cattle herders or, as in Sudan's Darfur region, between herders and settled farmers.

These are predictions, not certainties. They do not necessarily mean the land cannot be made to support more people. Tree cover in southern Niger, for example, has increased tenfold since the devastating droughts of the 1970s. A government decision to let farmers, rather than the state, own the trees, has made them more valuable by allowing locals to capture the benefits of harvesting bark, branches, seeds and fruits, meaning that locals are less likely to cut them down. Trees limit soil erosion; some "fix" the soil with nitrogen.

Elsewhere, though, the losses are huge. Forests in Kenya have shrunk by at least 60% since 1990, mainly because more people are cutting down trees for fuel. It is doubtful whether Kenya's government is strong enough to save the Mau forest on which Nairobi depends for water and hydroelectric power. And if Kenya cannot save a forest on which its capital depends, what hope is there for Congo's rainforest?

Thanks to its demographic transition. Africa will suffer less from these afflictions than it otherwise would. But it cannot remove them altogether, because the continent's population will continue to grow, albeit more slowly. The hunger, poverty and strife this causes could gravely limit the demographic dividend.

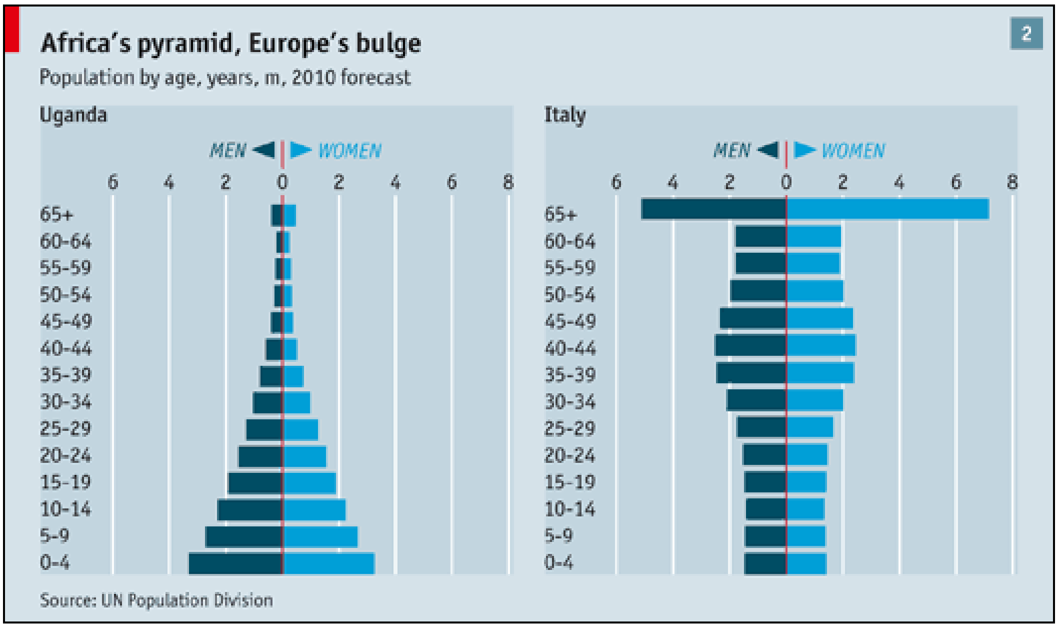
Which leads to the second reason for pessimism: Africa's families are under greater strain than Asia's or Latin America's were when their demographic transitions first began. That means, pessimists fear, that African countries may fail to navigate the virtuous cycle of industrialisation, growing employment, increasing productivity and prosperity.

One African in two is a child. The numbers are such that traditional ways of caring for children in extended families and communities are breaking down. In southern Africa, as a result of HIV/AIDS, an increasing number of families are headed by children. A recent report by the African Child Policy Forum, an advocacy group, says there are now 50m orphaned or abandoned children in Africa. It thinks the number could rise to 100m, meaning misery for them and more violent crimes for others.

Millions of children already live rough in towns and cities. Prostitution and death await the poorest girls. The boys take to glue and crime. Africa has the highest rate of child disablement in the world. Some think 10-20% may be disabled, a staggering number, but since they are rarely seen in clinics and schools that is hard to verify. Paediatricians suspect some are killed in infancy—not Darwin's natural selection but the dispensing of an extra mouth to feed. Physical stunting is probably rising.

Throughout Africa the burden of disease weighs heavily. Between them, malaria and HIV/AIDS account for about a third of the continent's 10m deaths each year. In the ten years to 1995, more than 4m Africans died of AIDS and many countries have ten times as many people living with HIV as have died. Most are between 20 and 59. So HIV/AIDS is damaging that very section of the population—working-age adults—on which the demographic dividend depends.

If young people do not get jobs, or some stake in society, they may turn to violence. A Norwegian demographer, Henrik Urdal, reckons a country's risk of conflict rises four percentage points for every one-point increase in the youth population. So Africa's pyramids, wide at childhood and adolescence, are more promising than, say, barren Italy's (see chart 2), but also more combustible. In some cities the rate of unemployment is 70%. The unemployed are recruited into militias or gangs for the price of a day's wage. There was evidence of this after last year's Kenyan elections, when politicians and businessmen stood accused of paying young men to turn parts of the country into war zones. Lots of underemployed young people mean too many hotheads and not enough elders. Paul Collier, an Africa specialist at Oxford University, thinks that in such circumstances young African men are "very dangerous".



The third reason for pessimism is Africa's political violence, corruption and weak or non-existent governing institutions. According to the Harvard study, "institutional quality [is vital] for converting growth of the working-age share into a demographic dividend." Here the continent scores much more poorly than Asia or Latin America did in the 1960s or 1980s.

In the worst cases, civil war has meant that the demographic transition has not even begun. Fertility in Congo, Liberia and Sierra Leone—all torn apart by internecine fighting—has barely fallen. In Congo the rate is still six, just as it was in 1950. In the worst places, fecundity tends to track instability. Africa's highest fertility rates are in the refugee and internally displaced camps in Sudan and Somalia, then in those countries recovering from war, then in famine-pocked patches of desert and scrub stretching from Mauritania to Kenya.

Some Africa-watchers fear that parts of the continent may be getting trapped in a downward spiral: more babies mean more competition for resources, more instability—and more babies. Jared Diamond, a professor at the University of California, Los Angeles, thinks bits of the continent are already suffering a Malthusian collapse of a sort. The Rwandan genocide, in his view, was a result of too many people pressing on too little land, all overlaid with political tension. Recent collapses in parts of Mauritania, Chad, Sudan, Somalia and Kenya, to name a few, are taken by neo-Malthusians to have their roots in overpopulating marginal land, compounded by political failure.

Yet such events also serve as reminders of how much can change. Twenty five years ago, Mozambique and Namibia were also being torn apart by war and Ghana was lurching from coup to coup. Now, these countries are peaceful, prospering and likely to benefit from the demographic dividend.

Confounding Malthus

Given half a chance, Africa shows what Malthus himself underestimated: innovation. The leapfrogging of decrepit state telecoms by profitable mobile telephone companies is one example. A basket of new technologies including wind and solar power stations, biofuel cookers and rainwater tanks could improve prospects for many rural Africans. Only 4% of the continent's farmland is irrigated. Double that amount, add in fertilisers, seed, credit, information and proper metal warehouses (in some places a quarter of the harvest may be lost to rot and rats), and Africa might not just fill its own 2 billion stomachs, but export farm produce as well.

Emerging Asia and Latin America have been able to absorb much greater numbers of people thanks to urbanisation. Africa's rate of urbanisation is the fastest the world has ever seen, says Anna Tibaijuka, the head of Habitat, the UN agency responsible for urban development. In 1950 only Alexandria and Cairo exceeded 1m people. When the city rush is done, Africa may have 80 cities with more than 1m people, plus a cluster of megacities headed by Kinshasa, Lagos and Cairo—none of which show signs of mass starvation. Intermediary towns of 50,000-100,000 people will soak up most of those coming from the countryside. Urbanisation is part of the solution to Africa's demographic problems, not a manifestation of them.

eyevine

Will the next generation be better off?

Indeed, it is an open question whether demography should really be considered an African problem—or one of its advantages. Over the past year, the continent has had the fastest economic growth per person in the world, partly because it has been somewhat less affected by the collapse of world trade, but partly because of the small increases countries are seeing in the number of people of working age.

The UN Population Division points out that Africa's overall population is 8% lower today than it would have been if its fertility rate had stayed at its 1970s level. And the trend towards lower fertility is likely to accelerate. The use of modern contraceptives in sub-Saharan Africa is only 12% (though it has doubled since 1994). In Somalia it is 1%. By comparison, the rate in Asia and Latin America is over 40%, so contraceptive use is likely to rise sharply.

Demography needs to be put in perspective. It is not destiny. Africa needs a green revolution; more efficient cities; more female education; honest governments; better economic policies. Without those things, Africa will not reap its demographic dividend. But without the transition that Africa has started upon, the continent's chances of achieving those good things would be even lower than they are. Demography is a start.

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* Realizing the Demographic dividend: is Africa any different? By David E. Bloom and others.

CIA interrogations and the Blackwater affair

The underside of war

Aug 27th 2009 | WASHINGTON, DC
From The Economist print edition

Who should be held accountable for anti-terrorism's dirtiest business?

AFP

GEORGE BUSH'S "war on terror" left America with a scarred reputation and many disturbing questions. Barack Obama has said that he wants to move forward, rather than look back. That is understandable. The new president has an ambitious agenda. Prising open the lid on previous mistakes might unleash a political hornet-swarm. But this week, with Mr Obama bunkered on Martha's Vineyard, an ugly past roared into the present.

On August 24th the Department of Justice released a report on the CIA's interrogation of detainees abroad, written by the agency's internal watchdog in 2004. More important, Eric Holder, the attorney-general, directed a prosecutor to review whether interrogators may have broken the law. The announcement is part of a growing push to address past wrongdoing, by both the government and private firms. On August 28th a federal judge will consider a suit charging Blackwater, a security contractor, with war crimes. Mr Holder's announcement may even herald a new era of accountability. Those hoping for speedy reckonings, however, will probably be disappointed.

For some, the question is not why Mr Holder named a special prosecutor, but why no one did so earlier. The CIA's watchdog gave the report to the Justice Department in 2004. At the time the department's Office of Legal Counsel (OLC) was revisiting laws to support new "enhanced" methods of interrogation, such as waterboarding, which induces a sensation of drowning. The OLC's guidelines included attempts at moderation, which would be comic if they were not so ghastly. If interrogators shoved a detainee against a wall, his neck was to be supported "with a rolled towel to prevent whiplash".

The watchdog's report described these techniques, but went on to question their efficacy and note that other tactics were unauthorised. One prisoner, hooded and bound, was threatened with a pistol and a power-drill. Others had cigarette smoke blown in their faces until they vomited. Another was led to believe that female relations would be sexually abused in front of him. An interrogator clutched one detainee's neck so that he repeatedly passed out. Yet no action was taken.

Mr Holder's announcement was carefully couched. The inquiry will target only those who acted beyond legal guidelines. Mr Holder acknowledged that his decision would be controversial and insisted that intelligence officers deserve "our respect and gratitude for the work they do". He maintained that the review may not lead to prosecutions.

But the announcement has shaken Washington. Some Republicans argue that Mr Holder has gone too far. Pete Hoekstra, the top Republican on the House Intelligence Committee, said that the inquiry "risks disrupting CIA counterterrorism initiatives". Some Democrats claim that he has not gone far enough. However the investigation, once started, may grow.

John Durham, Mr Holder's prosecutor, has been told to follow a narrow path, but inquiries may plunge him into a broad morass. Might some interrogators have been confused about which techniques went too far? Why simply punish CIA lackeys, rather than those who oversaw them? Should authors of dubious legal memoranda be investigated? What about their superiors, or officials in the National Security Council or in the vice-president's office? Some Democrats want a commission to examine the full role of Mr Bush's White House.

Much information has yet to be revealed. Entire pages of the CIA's report are blacked out. More reports may follow. "It's going to unfold over weeks and months and possibly years," predicts Sarah Mendelson of the Centre for Strategic and International Studies in Washington. Inquiries with much more trivial beginnings have grown to consume the country. In 1994 Kenneth Starr was appointed to investigate Bill and Hillary Clinton's property dealings. Four years later he used an affair with an intern to advocate Mr Clinton's impeachment.

As the government struggles to hold its own employees to account, attempts to prosecute private firms are proceeding fitfully. Private contractors have played an unprecedented role in Iraq. If the legal framework for interrogations was distorted, the framework for contractors has at times been almost nonexistent.

Contractors are no longer immune from Iraqi law, as they were in the first years of the war, but avenues of legal redress remain winding. For example, the Military Extraterritorial Jurisdiction Act (MEJA) allows the prosecution of contractors who work for the Department of Defence. MEJA does not extend to those serving the State Department, such as the Blackwater workers who opened fire in Nisur Square in 2007, killing at least 14 Iraqis. Blackwater has said the shootings were in self-defence. Legal precedent for using MEJA and other laws remains slender.

However, two cases involving Blackwater may pave the way for further charges. In December 2008 federal prosecutors used MEJA to indict five Blackwater employees, all ex-servicemen, for the Nisur Square shooting. A judge declined to dismiss the case in February. In a separate civil suit in Virginia, a group of Iraqis, aided by American lawyers, is suing Blackwater under the Alien Tort Statute, which allows foreigners to sue for violations of "the law of nations". The Iraqis charge that Blackwater committed war crimes in Nisur Square and elsewhere. Two affidavits even claim that Erik Prince, Blackwater's founder, was involved in the murder of a possible informant. Blackwater has called the assertions "offensive". Complications, however, are certain. On August 28th a judge is expected to decide whether to let the case proceed. Among other considerations, he must judge whether Iraqis can bring a "wrongful death" claim under Virginia law; the defendants' lawyers say the contractors were technically immune from Iraqi law in 2007.

Never again?

As these legal cases trudge forward, broader efforts are being made to ensure that past mistakes will not be repeated. Mr Obama renounced harsh interrogation methods on his second day as president. On August 24th the White House announced that it would create a new interrogation team housed with the FBI, not the CIA. Contractors, meanwhile, face new scrutiny. Blackwater does not have an operating licence in Iraq; local officials refused to renew it. A bipartisan commission, created by Congress last year, is studying contractors closely. Its members flew to Afghanistan on August 23rd to investigate further.

But with two wars continuing, awkward compromises are inevitable. The Obama administration says it may continue to send detainees abroad for interrogation, a practice that leaves suspects vulnerable to torture. Meanwhile, Blackwater lives on as Xe Services and the number of contractors in Afghanistan is increasing. A preliminary report from the bipartisan commission on contractors, published in June, complained that oversight remains patchy. Mr Obama may have hoped for a clean break from the past. He remains shackled to it.

Budget forecasts

Pangloss revisited

Aug 27th 2009 | WASHINGTON, DC
From The Economist print edition

America's long-term budget outlook has worsened. Not for the last time

EVERY gnarled hack knows that the best way to bury bad news is counter it with a splashy new announcement. Small wonder then that the Obama team chose August 25th to renominate Ben Bernanke for a second term at the Fed—the same day the administration was due to release its updated budget figures. Unfortunately, no amount of diversion can hide the message from the new numbers: America's budget is on a dangerously unsustainable course.

The update, known as the mid-session review, increases the White House estimates of America's cumulative ten-year deficit by almost $2 trillion, to a new total of $9.05 trillion. The White House Office of Management and Budget (OMB) expects this year's deficit to be smaller than first predicted: 11.2% of GDP rather than 12.9%. This is largely because money which Mr Obama had expected to use to prop up the banking system will no longer be needed. Federal debt will reach 77% of GDP in 2019, up from 41% in 2008.

The problem lies in the longer term. America's public finances show no sign of recovering to anything near a sustainable level in the coming years. The average deficit over the next decade is now expected to be 5.1% of GDP, compared with an average of 4% in the original budget. Even in 2019, the last year of the forecast period and long after the financial crisis, Mr Obama's team expects a deficit of 4% of GDP (see chart).

Much of this deterioration stems from a grimmer (and more realistic) assessment of the economic outlook. Mr Obama's original budget assumed that unemployment would peak at 8.1% and foresaw a vigorous "V-shaped" recovery. That was far more optimistic than other forecasts at the time it was published, and quickly became laughably Panglossian. The mid-session review is more sober. Output is now expected to rise by 2% in 2010 (compared with 3.2% in the original budget), while the jobless rate peaks at 10%.

Nonetheless, the Obama team remains cheerier than others. In 2011 it expects the unemployment rate to fall to 8.6%, while the Congressional Budget Office, the independent bean-counter that released its own update on August 25th, thinks joblessness will still be at 9.1% in 2011.

What is more, from 2011 onwards, team Obama expects a reasonably vigorous recovery, with real GDP growth above 4% between 2012 and 2014. The trouble is that this recovery is still not enough to bring the deficit down to a sustainable level.

Peter Orszag, Mr Obama's top budget man, tried to put a positive spin on the situation. By 2019, he argued on his blog, America's primary deficit (the difference between revenue and spending excluding interest payments) would be only 0.6% of GDP. The rest of the deficit (some 3.4% of GDP) would come from interest payments on the debt accumulated thanks to "the policies of past administrations" and the need to "help the economy recover from the worst downturn since the Great Depression."

Maybe so. But the hard truth is that a primary deficit, however small, is not good enough. If, as the OMB expects, the average interest rate on government debt in 2019 is the same as the rate of economic growth, America needs a balanced primary budget to keep the ratio of debt to GDP stable. If, more plausibly, interest rates are higher, a surplus will be needed, and a large one if the debt ratio is to be reduced.

Is such a turnaround feasible? In the short term, the answer is no. It would be risky, even counterproductive, to tighten fiscal policy too quickly when the economy is weak. But there is scant risk of too much fiscal probity in Washington. As William Gale of the Brookings Institution puts it, raising taxes or cutting spending over the next five years will be “very hard”, because Republicans say no to any new taxes, Democrats are against any new taxes on 95% of households, and three-quarters of all spending is on defence, entitlements such as Medicare and Medicaid, and interest payments.

The Obama team argues, rightly, that controlling health-care costs is a big part of the long-term fiscal solution, though it is less clear that their plans achieve this. America’s fiscal mess will be also be eased if the economy grows faster than expected, which suggests team Obama should be cautious about undermining incentives to save and invest. But other spending cuts and higher tax revenues will also be needed. Otherwise, America’s depressing budget figures will get darker still.

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WORLD
UNITED STATES

The Texas governor's race

A showdown with tumbleweeds

Aug 27th 2009 | AUSTIN
From The Economist print edition

The Democrats are still unable to get their act together

AP

Hutchison's harder than she looks

TEXAS is a conservative state. Republicans control both houses of the legislature, there are no Democrats in statewide office, and in the last presidential election Big Red went for John McCain by a 12-point margin. Kay Bailey Hutchison, the state's senior senator, is generally considered its most popular Republican. But now Mrs Hutchison is running for governor, and in her first few campaign events she has taken a modest and moderate outlook.

On August 21st she held a small rally in the National Cowgirl Museum in Fort Worth. The speakers who introduced the senator spoke about the party's need to be inclusive, to nurture a majority, and not to frighten voters with talk of secession. Then Mrs Hutchison, poised in pearls, took the stage to the strains of "God Blessed Texas", a country song. "Think about it," she said. "If Texas starts going Democrat we will never elect a Republican president again." She said that she would welcome everyone to her coalition as long as they supported lower taxes, limited government and private-property rights.

The list was notable for its omissions. After the rally a supporter from Weatherford explained that he was staunchly against abortion. But he thought that Republicans should set aside the issue because it would be a big distraction, politically speaking. He was trying to figure out how to explain that to people at his church.

America will have some three dozen governor's elections in 2010. With the possible exception of the roller-derby in California, none will create as much commotion as the contest in Texas. The wolfish incumbent, Rick Perry, is an outspoken social and fiscal conservative who has clanged heads with the Obama administration on several occasions. His opponent, Mrs Hutchison, is staking her candidacy on her ability to bring independents and moderates into the fold for the Republican primary. Both are prepared to duke it out. The Hutchison campaign is blasting Mr Perry for trying to hang on too long, and Mr Perry has dispatched a "Kay Bailout Express" to his challenger's campaign stops.

It promises to be a good showdown. But apart from the fireworks, the race is being watched for the light it sheds on Texas's changing political landscape. Mrs Hutchison has to tack to the centre because Mr Perry is strong on the right. But as her comments in Fort Worth suggest, Texas Republicans are not as confident as they once were.

Over the past few years they have seen their advantage in the state House of Representatives dwindle to a mere two votes, out of 150. Democrats swept the Dallas County elections in 2006 and nearly repeated the feat in Harris County, which encompasses Houston, two years later. Jamaal Smith of the Harris County Democratic Party reckons that the Democrats are building their farm team on these down-ballot races, with statewide success to come. The Gallup poll, which surveys adults about their party identification, classes Texas as a "competitive" state, with a few more Democrats than Republicans. The Gallup poll is somewhat odd: it also has Mississippi and Kansas down as swingers. But Democrats feel good about the demographic trendlines. Texas is becoming younger, more Hispanic and more urban. In future presidential elections it will be a tempting prize.

For 2010, however, Texas Republicans have an ace in the hole: Texas Democrats. Technically, the winner of the Republican primary will face an opponent in the general election in November. But Texas Democrats are a curious breed. They are happy to mock Republicans, but when the time comes to run there are only a few tumbleweeds bouncing across the horizon.

“You gotta understand that there’s a game of musical chairs being played on the Republican ticket,” says Boyd Richie, chairman of the Texas Democratic Party. For example, if Mrs Hutchison resigns her Senate seat then Mr Perry might appoint David Dewhurst, the lieutenant-governor, to fill it. That would open up a race for the lieutenant-governor’s job. While Democrats speculate about lesser or notional races, however, the Republicans are busy actually campaigning for the big one.

The Democrat with the strongest shot at statewide office is Bill White, the mayor of Houston. He is running for Mrs Hutchison’s Senate seat, though it is not too late for him to switch races. A few Democrats have thrown their hats in the gubernatorial ring. These include Kinky Friedman, a country singer and comedian who ran for governor last time around as an independent, and Tom Schieffer, a moderate who has some of the same talking points as Mrs Hutchison. Compared with her or Mr Perry, the Democratic contenders all lag in money, name recognition and party infrastructure. That will change, but time is tight. By the time Texas turns blue some other states may be reddening again.

Emigration from California

Go east or north, young man

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From The Economist print edition

As California's troubles increase, some neighbours hope for an influx

Getty Images

Would they really rather go to Nevada?

A MONKEY, representing California's legislature, is sitting on a tree and looking silly. A voice lists the advantages of Nevada—no personal or corporate income tax, lower workers' compensation insurance, less red tape—and urges Californian business owners to "get the monkey off your back" by moving to Las Vegas. In another television ad, California is a pig, and the voice-over tells entrepreneurs not to be fooled (to quote Sarah Palin) by the lipstick being put on it.

Since this advertising campaign began on August 7th, the Nevada Development Authority, which is trying to persuade companies from California to come to southern Nevada, has received 125 inquiries. Somer Hollingsworth, who runs it, plans to spend $1m on ads. Nevada, with great infrastructure, lots of underemployed but educated workers and (thanks to the property bust) cheap housing, has lots to offer, he says, whereas California is "anti-business. They don't care if you as a company stay there or not."

As California, a complicated place even in good times, has descended deeper into a budget and governance morass this year, the voices calling for, or warning of, a mass exodus of firms and people have become more numerous and loud. The gist is as follows. Byzantine regulations, high and complex taxes and legislative gridlock are driving out businesses, while high personal taxes are driving out the rich and a disintegrating social safety net is pushing away the poor.

Thus the Milken Institute, a think-tank in Santa Monica, said in June that California is steadily losing its manufacturing industry, "a canary in the coal mine for the California economy", to more attractive, better organised states such as Arizona, Indiana, Kansas, Minnesota, Oregon, Texas and Washington. If California had maintained its position vis-à-vis other states since 2000, estimates Milken, it would have had 1.2m more jobs in 2007. Others are citing numbers showing that more people are leaving California for other states than are coming in.

There is some exaggeration in all this. The Public Policy Institute of California (PPIC), a non-partisan think-tank in San Francisco, has examined domestic migration in and out of California, and found that the high personal income taxes that are allegedly driving out the rich cannot be to blame. The poorest Californians, those paying very little in taxes, are the most likely to leave the state: 1.73 households are leaving for every one that arrives. Among the richest, only 1.09 households are leaving for each arrival.

It is true that the top destinations for those leaving include Nevada, Texas and Washington, three states that have no personal income taxes. Oregon, however, is also popular and it has high income taxes. Proximity seems to be a bigger factor than tax rates, says the PPIC.

Nor is manufacturing declining unusually fast in California, as the Milken Institute claims, thinks Steve Levy, the boss of the Centre for the Continuing Study of the California Economy, another research outfit. When California is compared with the entire country rather than a hand-picked group of alleged rival states, he says, its manufacturing job losses rank in the middle. Besides, he says, it is a mistake to count the decline of the aerospace industry in the early 1990s, which was caused by the end of the cold war. Excluding aerospace, California's share of the country's high-tech jobs has remained steady at just over 20%, estimates Mr Levy.

Even the claims about individuals fleeing the state are overdone, he argues. If you count people moving in and out of California from other countries as well as other states, more people are still coming than are leaving. Total migration has been positive for California since 1996.

California's domestic out-migration, moreover, may have a simpler cause than dysfunctional government or high taxes. Houses became much more expensive in California than in the rest of the country during this decade's housing boom, with the gap growing until early 2007, when most of those emigrating today would have begun to make their plans. Many Californians who already owned homes took their profits and are looking for larger houses in other states, while people in other states were priced out of California. Housing "unaffordability", says Mr Levy, was and is California's "principal competitive disadvantage".

Even so, Californians are increasingly touchy about the troubles of their state. One state assemblyman, Jose Solorio, is so outraged by Nevada's "nasty" ads that he is helping to fund a counter-campaign. "What happens in Vegas stays in Vegas, but what happens in California makes the world go round," says a narrator. As he speaks, stunning images of the Golden Gate bridge and Santa Monica's palm trees clash with a cow crossing a freeway in a drab Nevada desert.

Violent-crime rates

Serener streets

Aug 27th 2009 | HOUSTON
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Better policing is improving some of America's biggest cities

Reuters

GUN sales are soaring around the country. In April the Department of Homeland Security warned law enforcement agencies to keep an eye out for right-wing extremists, as the economic downturn and the election of America's first black president could create a "fertile recruiting environment". In May an anti-abortion zealot murdered a prominent abortion doctor at his church in Kansas. The next month a white supremacist murdered a black guard at the Holocaust Memorial Museum in Washington, DC. In August yet another crazed gunman, frustrated by his lonely love life, opened fire in a Pittsburgh gym, killing three people.

Headlines like these would suggest that Americans have extra reason to lock their doors at night. But, as it turns out, the big picture is not that frightening. The most recent report from the FBI is that during 2008 violent crime dropped 2.5% compared with 2007. Individual cities have also put out their statistics for the first half of 2009: most of America's ten largest cities have posted drops in violent crime compared with the same period last year. That includes New York, Los Angeles, Chicago, Houston, Dallas, Philadelphia, San Diego and Phoenix, where people have been volubly worried about the spectre of "spillover violence" from Mexico.

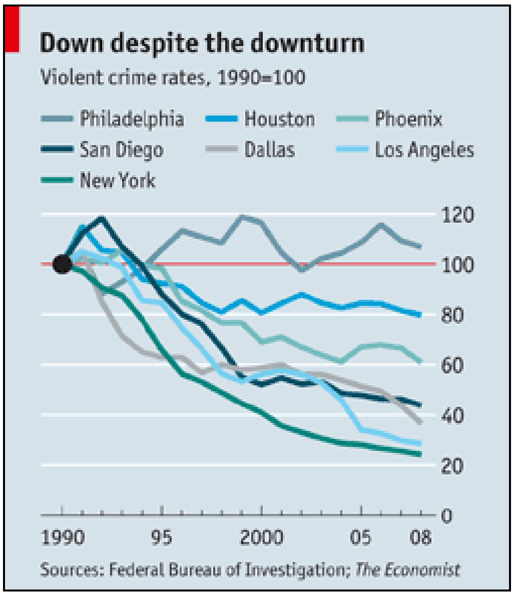
This has caused some cognitive dissonance. Houston, for example, has a mayoral election coming up, and the contenders are banging on about crime. It is not a random fixation: according to analysis by the *Houston Chronicle*, Houston is the most violent big city in Texas, and the eighth-most-violent in the country.

However, crime in Houston is at its lowest level in almost 40 years. The city recently applied for federal funds through a programme called Community Oriented Policing Services (COPS), which would have given them money to hire more police. But Houston's request was rejected—partly, says the current mayor, Bill White, because crime is relatively low. In effect, Houston is being punished for good behaviour.

Public opinion reflects the trend. For more than 15 years Steve Klineberg, a sociologist at Rice University, has quizzed Houstonians on their thoughts, fears, and feelings. He says concerns about crime usually correspond fairly well to the actual crime rates, and such is the case this year. The number of people who are very worried about crime is down, the number who are not worried is up, and for the most part people are far more preoccupied with the economy.

This is not the case everywhere. Plenty of cities are struggling with upticks in violent crime, including

luckless Detroit. And some criminologists are sceptical about whether the declines are all that meaningful. John Lott of the University of Maryland argues that short-term fluctuations in the crime rate are fairly idiosyncratic, and that trends should be observed over a longer period.



Nonetheless, the 2009 numbers are clearly part of an ongoing story: after the dramatic drops of the 1990s, major crime has stayed relatively low in America's biggest cities and has even declined a bit further here and there. Many criminologists attribute the fall to more sophisticated policing, in terms of both technology and management. William Bratton, New York's highly effective police chief for most of that decade, exemplifies the change. Mr Bratton, who moved on to Los Angeles in 2002, announced in August that he would leave for the private sector. His Los Angeles stint was also successful—violent crime dropped by about half while he was at the helm. Angelenos, like New Yorkers, have praised his focus on detailed surveillance data and neighbourhood policing.

The declining rates of 2009 may help people shake off the idea that crime rises during economic downturns. Most criminologists dispute this notion, but it is still widely held and in some cases encouraged. In January the Police Executive Research Forum issued a sombre report saying that two-thirds of the departments they had surveyed were facing budget cuts as a result of the downturn, and that close to half had already experienced rises in certain types of crime as a result. Cost-cutting measures have consequences. For example, cash-strapped California is planning to save a little money by releasing some 27,000 lower-category prisoners. Many of those jailbirds may revert to their previous employment.

The political potency of crime will not change. Elections have been won for years with vows to be tough on crime. But Americans will have to bear in mind that the most dramatic stories are often outliers. Consider Milwaukee, America's 23rd-largest city. On August 15th the mayor, Tom Barrett, was leaving the Wisconsin State Fair when he heard a woman cry out for help in the parking lot. He intervened, and the man who was harassing her beat the mayor with a metal bar. It was a vicious assault, but Mr Barrett is recovering well. Barack Obama called to say that he was proud of him. And the mayor has another reason to be proud. Crime is down in Milwaukee, too.

Mercury in fish

Hold the sushi

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From The Economist print edition

A pollution trail from the streams to the ocean

HERBERT HOOVER once described fishing as a "discipline in equality—for all men are equal before fish". The converse, unfortunately, is not true. After the release of a new government study that documents the prevalence of mercury in freshwater fish, American consumers are aware that all fish are not equal, or at least not equally good to consume.

The new study was conducted by the US Geological Survey (USGS), a scientific agency run by the government. It found traces of methylmercury, a form of mercury that is readily absorbed, in every fish sampled in 291 streams across the country. In around a quarter of those fish, the amount of mercury was above the level set by the Environmental Protection Agency (EPA) as safe for human consumption. Mercury levels at more than two-thirds of the sites exceeded what scientists believe fish-eating mammals, such as mink and otters, should ingest.

The leading source of mercury is pollution from coal-burning power plants, which accounts for 40% of all domestic anthropogenic mercury, according to the EPA. It is emitted through smokestacks and deposited in rain and snow, often making its way into the water. Mercury can be toxic, and adult exposure to it can lead to reproductive problems, memory loss and tremors. Prenatal and infant exposure can cause mental retardation, deafness and blindness. The National Research Council, an organisation that looks at science and public policy, estimates that more than 60,000 children are born each year at risk of learning disabilities because they have been exposed to methylmercury in the womb.

The fish lobby points out that the USGS findings do not necessarily damn the commercial fish industry, as most of the fish people eat comes from the ocean and not from freshwater streams. But mercury levels are high in marine fish, too—particularly in larger species, such as shark, tuna and swordfish. Mercury accumulates as it works its way up the food chain. A report released earlier this year by Harvard and the USGS forecasts that mercury levels in the Pacific Ocean will rise by 50% by 2050 as emissions from coal-fired power plants increase.

Consumers are now trying to understand how the USGS study's findings should influence their eating habits. One popular national news programme displayed slices of raw fish on air and asked a health expert go through which ones were safe to consume. This shows the need for clearer guidance from the EPA and the Food and Drug Administration (FDA) on fish consumption by pregnant women, says Richard Wiles of the Environmental Working Group, which keeps an eye on toxins in food. He says the FDA has "historically been in the pocket of the tuna industry", and has failed to give specific directives about how to get the health benefits of fish while avoiding mercury.

The news about mercury also underscores the importance of developing a federal policy to control emissions. The Bush administration's proposed cap-and-trade policy, which would have allowed heavily polluting factories to buy emission rights from cleaner ones, was struck down in court last year. That leaves Barack Obama responsible for suggesting a more aggressive curb on mercury emissions—for the good of America's fish and those who eat them.

Lexington

A hell of a senator

Aug 27th 2009
From The Economist print edition

Ted Kennedy's death leaves a messy hole in American public life

Illustration by KAL

HAD a young woman not drowned in his car, he might have been president. That, alas, is how many will remember Ted Kennedy. He ought rather to be remembered for his 47 years of manly toil in the Senate, where he was a staggeringly capable legislator. He arguably brought more lasting change to America than any other member of his celebrated family. Yet his story hinges around the tragedy of Chappaquiddick in July 1969.

He always denied that he was drunk that night, or that he was having an affair with Mary Jo Kopechne, the young campaign worker in his car. But if not, the episode is hard to understand. Driving away from a party, he swerved off the road and down a bumpy track before plunging his Oldsmobile into a pond. He escaped; his passenger was trapped under the water. Yet he did not call the police for help, relying instead on two discreet aides. Nor did he report the accident until it was discovered, nine hours later. His explanation for what he called his "irrational and indefensible and inexcusable and inexplicable" behaviour was that he was disorientated after the crash. Voters frowned.

Edward Moore Kennedy was born in 1932, the youngest son of what was to become America's most glittering political dynasty. His father, Joe, had built a colossal fortune, and wanted to turn his money into power. In 1960, his son Jack was elected president. Joe wanted Ted to inherit Jack's seat in the Senate, but Ted was only 28, and the constitution says senators have to be 30. So Jack persuaded the governor of Massachusetts to appoint his college room-mate to keep the seat warm for a couple of years. In 1962, Ted became the youngest senator.

The next year, Jack was assassinated. Ted was presiding over a Senate debate about libraries when someone rushed in and shouted: "Senator, your brother has been shot!" He turned pale, and rushed out. It was not the first time one of his brothers had died violently; Joe junior had died in the war. Nor was it to be the last. The third brother, Bobby, was murdered just when it looked as if he might win the Democratic presidential nomination in 1968. The Kennedy family ethos compelled young Ted to run for president, too. But, unsurprisingly, he had mixed feelings about it.

He sat out the races in 1972 (too soon after Chappaquiddick) and 1976 (his son was recovering from cancer). But he grew so disenchanted with Jimmy Carter that he bowed to a noisy "Draft Ted" movement and launched a primary challenge in 1980. It was a disaster. He could never explain why he should be

president. Asked that question by Roger Mudd of CBS News, he froze and waffled. “It’s imperative for this country to either move forward; that it can’t stand still or otherwise it moves backward,” he said. Though he electrified the party convention, Mr Carter trounced him in the primaries before being crushed by Ronald Reagan.

At his best, Mr Kennedy was a fine orator. Less than an hour after President Reagan nominated Robert Bork, a fierce conservative, to the Supreme Court, he was skewering him on the Senate floor. “Robert Bork’s America is a land in which women would be forced into back-alley abortions, blacks would sit at segregated lunch counters, rogue police could break down citizens’ doors in midnight raids, schoolchildren could not be taught about evolution…and the doors of the federal courts would be shut on the fingers of millions of citizens,” he thundered. “There was not a line in that speech that was accurate,” wailed Judge Bork afterwards. He was right. But it worked.

For most of his career, the indiscipline of his private life delighted Republican fund-raisers. He was thrown out of Harvard for cheating in an exam. He chased women as keenly as his brothers did but, unlike them, he lived to see the rules change. The gentlemanly press corps of the early 1960s kept quiet about Jack’s escapades; modern scribblers know no such restraint. “He doesn’t do interviews with lifestyle magazines because they tend to ask lifestyle questions,” a flack told Michael Kelly of *GQ* magazine in 1990. The flack was right. Kelly’s profile of the senator brimmed with booze, blondes and boorish fumbles on restaurant floors. Mr Kennedy’s not-so-private flaws made him a less effective politician. His speech attacking George Bush senior in 1988, for example, would have been deadlier delivered by someone else. “As the [Reagan] administration secretly plotted to sell arms to Iran,” he asked, “Where was George?” Republican bumper-stickers replied: “Dry, Sober and Home with his Wife”.

His last crusade

Yet even when he was carousing—and he sobered up in the 1990s—he was a hell of a senator. He was not a details man; he had a devoted staff for that. But he had passion and energy and a palpable desire to comfort the afflicted. From the moment he entered the Senate, he agitated for civil rights for blacks. His beefy fingerprints are on the Voting Rights Act, the Age Discrimination Act and the Freedom of Information Act. He pushed for an end to the war in Vietnam, for stricter safety rules at work and for sanctions against apartheid South Africa. He sometimes took bold stances while his party dithered: he opposed George Bush junior’s Iraq war from the start. Yet he worked hand-in-glove with Mr Bush to make schools more accountable and to liberalise immigration law, though the latter task defeated them both.

His last quest was to make health insurance universal. He first attempted this in the 1970s. This year he threw all his weight behind Barack Obama’s health plan, before cancer made him too ill to work. Last week, suspecting that the end was near, he urged a change in Massachusetts law to allow a temporary successor to be appointed by the Democratic governor. If this does not happen, the seat could be empty for months, depriving Democrats of their filibuster-proof majority in the Senate—and reminding Americans how big a man, in every sense, they have lost.

Economist.com/blogs/lexington

Presidential politics in Brazil

A wounded force in search of a new compass

Aug 27th 2009 | SÃO PAULO
From The Economist print edition

Lula's plan to anoint Dilma Rousseff (pictured below with the president) as his successor has started to go awry amid the splintering of the Workers' Party

Reuters

WHEN the Workers' Party (PT) was founded in 1980 it saw itself as a different kind of political outfit: socialist, ethical, youthful, even romantic. But little by little its role has been reduced to getting its founding and unrivalled leader, Luiz Inácio Lula da Silva, a former lathe operator and trade-union leader, into power and keeping him there. This has meant disappointments and compromises that are now causing the party harm. This month two of its 12 senators (out of a total of 81) walked out. One, Flávio Arns, accused his colleagues of "throwing morality in the dustbin". The other, Marina Silva, a PT stalwart since the 1980s and a celebrated environmental campaigner, left to join the smaller Green Party.

The latest troubles stem mainly from Lula using his power to swing the party behind José Sarney, the Senate president and the kind of old-fashioned political boss whom many in the PT went into politics to get rid of. Mr Sarney commands a chunk of the Party of the Brazilian Democratic Movement (PMDB), a centrist bunch that follows where opportunity leads, but is Brazil's largest and best organised political force. Mr Sarney has had troubles with the Senate's ethics committee but has clung to his job thanks to Lula's support. This is in aid of keeping the governing coalition together and swinging Mr Sarney's block behind Dilma Rousseff, Lula's chief of staff and chosen candidate for the presidential election in October 2010. "Lula had no choice," judges David Fleischer, a political scientist at the University of Brasília, "but he has almost destroyed the PT."

The turmoil has exposed problems that had been camouflaged by success. The biggest is that the party which became a vehicle for Lula's election never really came up with a plan B. Having almost completed two terms, the president is out of the electoral picture until 2014 at least. Several of Lula's most prominent lieutenants were taken out of contention for the top job by a corruption scandal in 2005, when it emerged that party leaders had bought votes in the Congress. This also had the effect of damaging the party's image among its supporters and the wider electorate.

Lula turned to Ms Rousseff as his heir-apparent. She is a relatively new recruit to the PT. Although she is impressively competent, she lacks the president's vote-getting charisma. She also has several troubles. She has undergone treatment for lymph cancer. *Piauí*, a monthly newsletter, has revealed that the PhD listed in her profile on the government's website never existed. And a former head of the tax office claims to have had a meeting with her in which they discussed how to curtail an investigation into Mr Sarney and his family.

Perhaps worse for Ms Rousseff’s candidacy is the fact that Marina Silva, who has many of the qualities that she lacks, is likely to run for the presidency for the Green Party. Ms Silva is not very charismatic either, but she is one of the few other people in Brazilian politics with a biography to rival Lula’s. The daughter of rubber tappers in the Amazon, she learned to read as a teenager and did some of the menial jobs that many Brazilians labour in before becoming a star of the international environmental movement. This month she met an audience of business people at the Fundação Dom Cabral, a business school in Minas Gerais state, who expressed grudging respect for her uncompromising integrity.

Ms Silva is unlikely to be Brazil’s next president, but she could well siphon off votes from Ms Rousseff. Before then, though, she will have to sort out the Green Party. It, too, lost its moral impetus somewhere in Brasília. Its leader in the Chamber of Deputies is Zequinha Sarney, a former environment minister who is also the son of the senate’s compromised president.

A couple of months ago it looked as if the election would be a straight fight between Ms Rousseff and José Serra, the governor of São Paulo, of the opposition Party of Brazilian Social Democracy. In addition to Ms Silva, the list of possible candidates has expanded to include Heloísa Helena, who leads an earlier leftist split from the PT, and Ciro Gomes, a populist former minister in Lula’s government.

The splintering of Lula’s political base ought to be good news for Mr Serra. Hugely experienced but lacking a popular touch, Mr Serra commands a consistent 40% or so in pre-election polls, 20 points ahead of Ms Rousseff. He has recently spent time in the poorer north-east. And he has started revealing mundane aspects of his life on Twitter. João Augusto de Castro Neves, a political consultant, reckons that Mr Serra will wait for as long as possible before declaring his candidacy to avoid the sort of attacks that Ms Rousseff is now attracting. Being the front-runner is not easy and the race, which suddenly seems to have begun, is far from decided.

Malnutrition in Guatemala

A national shame

Aug 27th 2009 | JOCOTÁN
From The Economist print edition

Political will is scarcer than food

Reuters

No, not Africa, this is Guatemala

IT IS hardly one of Latin America's poorest countries, but according to Unicef almost half of Guatemala's children are chronically malnourished—the sixth-worst performance in the world. In parts of rural Guatemala, where the population is overwhelmingly of Mayan descent, the incidence of child malnutrition reaches 80%. A diet of little more than tortillas does permanent damage.

This chronic problem has become acute. Higher world prices for food have coincided with a recession-induced fall in money sent back from Guatemalans working in the United States (remittances equal 12% of Guatemala's GDP). Drought in eastern Guatemala has made things worse still. Many families can scarcely afford beans, an important source of protein, and must sell eggs from their hens rather than feed them to their children.

The government and aid donors are providing emergency food supplies for 300,000 people scattered in some 700 villages. Up to 400,000 more may need help. In Jocotán, in the east, rehabilitation centres have admitted dozens of children who are so malnourished that their black hair has turned blond, their faces are chubby from fluid build-up as their organs fail, the veins in their legs become a visible black spider-web and their face muscles are too weak to smile.

What makes this even more distressing is that Guatemala is rich enough to prevent it. Other Latin American countries, such as Bolivia, Peru and Brazil, have reduced child hunger. Yet according to Unicef, the incidence of stunting—a common indicator of chronic malnutrition—in Guatemala is twice what it is in Haiti, where income per head is only a quarter as high. Stunting is not genetic: a study by the World Bank found that Mayans in southern Mexico are taller than those over the border.

That points to a failure of government in Guatemala. The Mayan population were the main victims of a long-running civil war between military dictatorships and left-wing guerrillas. Although democracy came, and eventually peace, social conditions have been slow to improve. Income inequality remains extreme, even by Latin American standards. Two-thirds of the rural population remains poor. Guatemala came second to bottom of a new index measuring inequality of opportunity in Latin America published by the World Bank last year. Whereas Guatemala City has shiny shopping malls, gated mansions and trendy restaurants, many indigenous Guatemalans scratch an inadequate living as sharecropping subsistence farmers. "These people were totally abandoned in the mountains with no infrastructure, no education, no health," says Rafael Espada, the vice-president.

Much research shows that children who are undernourished tend to suffer from learning difficulties and end up poorer. So proper feeding is the first step in breaking the cycle of poverty. But schooling is vital too. Guatemala lags behind in educating girls in particular. As a result, mothers may not prepare corn-soya feeding supplements correctly, and may share them among all their children rather than favouring the malnourished.

The government fails to collect enough taxes from wealthier Guatemalans to provide good schools and health care for the majority, let alone the kind of targeted cash-transfer programme that has helped to cut poverty in Mexico, Brazil and elsewhere in the region. But urban Guatemalans are more worried about rampant crime, much of it by drug gangs. The government, like its predecessor, is full of good intentions. But several attempts at tax reform over the past decade have foundered in the face of entrenched political resistance. So malnutrition looks set to continue in a country in which it ought to be a cause of national shame.

Landmines in Colombia

Cheap and lethal

Aug 27th 2009 | BOQUERÓN
From The Economist print edition

The FARC flouts the Ottawa treaty

A SINGLE footpath connects the tiny village of Boquerón, in Colombia's Antioquia department, to the nearest town, but for more than four years few have dared tread it. Over that period 15 civilians, including three children, and 45 soldiers have been injured by scores of home-made landmines laid along some three miles (5.5 kilometres) of the trail by the leftist guerrillas of the FARC. Across 60% of Colombia's municipal districts this gruesome story is repeated. Since 2000 more than 7,000 people have fallen victim to landmines, according to the Ministry of Defence. Most of them were planted by the FARC and some by a second guerrilla group or right-wing paramilitary gangs.

The problem is getting worse. In an intercepted e-mail, Alfonso Cano, the FARC's commander, last year ordered his fighters to sow more mine fields to halt army offensives "since we know it's the only factor that stops and intimidates them." This is borne out by testimony from FARC deserters.

Most of the victims are indeed soldiers. Half of the army's battlefield injuries are caused by mines. Four years ago army doctors treated 15 landmine casualties each month; now that figure is 43. Many lose limbs. The mines are made cheaply from fertiliser, syringes and building materials and can be detonated by pressure devices such as tripwires, or by remote control using radio frequencies or mobile-phone signals. The FARC perfected their manufacture after receiving training from former members of the IRA, according to General Freddy Padilla, the armed forces' commander.

Luis Fernando Garrido, a FARC deserter, says that the mines are not deliberately aimed at civilians. But he adds that mines will be planted on civilian footpaths or roads when these are used by troops. They are also used to protect coca crops from government eradicators. The army has set up six demining platoons, but these are not keeping pace with the problem. The government is considering contracting out some mine-clearing to civilian groups next year.

Colombia is a signatory to the Ottawa treaty banning landmines. In November it will host the treaty's second review conference. But the FARC recognises no such moral and humanitarian constraints on its war against Colombia's armed forces and its democracy. It is sowing Colombia with a lethal problem that will take decades to clear.

Canada's Arctic policy

Harper of the melting North

Aug 27th 2009 | IQALUIT
From The Economist print edition

The prime minister tries to marry defence and welfare

DESPITE never having commanded a parliamentary majority, Stephen Harper has managed to hang on to his job as prime minister since 2006 partly by imposing an iron grip on his Conservative government. So when he told the cabinet ministers joining him on a swing through Canada's northern territories earlier this month that they would have to eat seal meat, they dutifully tucked in, managing a smile for the cameras. The photos, circulated by the prime minister's office, were both a poke in the eye of the European Union, which recently banned the import of seal products, and a gesture of solidarity with Canada's Inuit, for whom the fishy-tasting meat is a staple.

The five-day trip through Nunavut, the Northwest Territories and the Yukon was designed to portray Mr Harper as a man who is both comfortable in, and in control of, the two-fifths of Canada that lies north of the 60th parallel. He posed with smiling Inuit children, took the controls of a submarine and stood on the deck of a frigate as three fighter aircraft roared over Frobisher Bay in a military exercise dubbed Operation Nanook. The spin was not wholly misleading. Mr Harper's government has paid more attention and allocated more funds to the Arctic territories than the two previous Liberal governments managed during a dozen years in power.

But is all this attention going to the right things? Canadians are starting to debate whether the main aim of policy towards the north should be the assertion of sovereignty, and thus spending big money on military kit, or trying to improve the dire social conditions in which people live there, as many northerners would like. There are not many of them—some 120,000, or less than half a percent of Canada's total population. But in Nunavut, for example, alcoholism and suicide rates are higher than the national average, life expectancy is lower and almost half of the population lives in overcrowded housing.

So far the government has tried to do both. In Nunavut new social housing is being built with federal money. "For a Conservative government to do this is quite remarkable," says Jim Bell, the editor of the *Nunatsiaq News*, the local newspaper, noting that its Liberal predecessor stopped all federal spending on social housing. Mr Harper repeated a previous promise to set up a development agency for the three northern territories, to be based in Iqaluit. But its budget of C$50m ($46m) over five years will not go far. Doing almost anything in the north is expensive. Bulky items must be shipped in during the brief period when the sea is free of ice.

When Canadians think of the north nowadays it is often to worry about the changing climate bringing interlopers. The melting ice cap looks almost certain to create a navigable Northwest Passage and unleash a scramble for undersea resources. Two years ago Russia planted its flag on the seabed in the waters beneath the north pole; it has promised to land paratroopers there next year. The United States is one of many countries that reckon the Northwest Passage is an international waterway, rather than Canada's sovereign waters. In response the government has promised to beef up its military presence in the north.

Reuters

Stephen Harper's Cabinet savours seal meat in the cause of sovereignty

This remains tentative. On the bridge of *HMCS Toronto*, the frigate leading Operation Nanook, Commander Alex Grant points to a chart of Frobisher Bay that is largely blank except for the narrow shipping channel linking Iqaluit to the open sea. The Canadian navy's presence in the north is largely confined to the summer months. Its four submarines, bought second-hand from Britain, can operate under the ice cap only for short periods. The coast guard's two heavy icebreakers are ageing. Mr Harper promised three new ones: that has now been scaled back to one (costing C$720m) and six ice-hardened patrol boats. A plan for a deepwater dock at Iqaluit has been replaced by a refuelling station at a refurbished harbour in the north of Baffin Island. When winter sets in, the main military presence comes not from the regular army but from the Canadian Rangers, a force of 4,400 locals who serve as part-time reservists.

Even on sovereignty there is a north-south divide. The Inuit, who make up 85% of Nunavut's population, are offended at the portrayal of the region as a wasteland that Canada needs to populate. John Amagoalik, an Inuit political leader who helped create Nunavut as a separate territory a decade ago, objects to Mr Harper's repeated comment that Canada's choice in the Arctic is to "use it or lose it". "We have occupied these lands for millennia. The prime minister is not giving us due credit," he says. Mary Simon, who heads the body representing Canada's 50,000 Inuit, says her people do not oppose a military presence in the north, but want the government's emphasis to be on improving the lives of those who have always lived there.

Yet the overwhelming majority of voters live in the south. So Mr Harper will surely continue to try to make a little money go a long way in the north.

Afghanistan's presidential elections

More votes than voters

Aug 27th 2009 | KABUL
From The Economist print edition

And more gloom than hope after a deeply flawed process

AFP

BY MID-MORNING on August 20th, election day, the police standing outside the Haji Janat Gul High School, a polling centre a few miles east of Kabul, estimated it had been visited by just four lorries, carrying a score of voters each, and three or four cars. After long conflicts, the second set of elections is often a story of unrealistic expectation turned to disillusion and apathy.

Across Kabul, turnout was sluggish. But at Haji Janat Gul the lack of voters had not dented the tally of votes. Only an hour after voting began, 6,000 had been cast. Yet not a voter was in sight. Staff insisted that the 6,000 had all come at 7am, when polls opened: "The Taliban said that they would cut off the fingers of people voting so they came early."

This was impossible. Typically it takes four minutes to vote. For 6,000 to have voted in an hour at the 12 ballot boxes, they would have had an average of seven seconds each. The Electoral Complaints Commission later received allegations that the ballot boxes had been stuffed for President Hamid Karzai before polls opened, at the instigation of a local MP and tribal leader.

Three interlocking factors shaped the Afghan election day: large disparities in turnout across the country; the threat of Taliban violence; and allegations, as yet largely unproved, of systematic electoral fraud on behalf of Mr Karzai. Western military commanders claimed that the Taliban had failed to disrupt the election, with only 26 people killed on polling day. But the Taliban's strategy was one of intimidation, designed to deter rather than kill voters. In that they were successful.

During the poll there were some 400 insurgent incidents, making it the most violent day this year. Many seemed intended just to register the presence of insurgents in the area. In Wardak, for instance, a rocket landed in the general area of every polling centre. Threats to cut off fingers marked with the indelible ink used to prevent double voting turned out to be almost entirely baseless. But they worked as a deterrent.

In a relatively benign northern arc, from Herat in the west to Nangarhar in the east, turnout was as high as 60% in some areas, though in Nangarhar it fell to about 35%, and overall turnout was well below the level achieved in the previous presidential poll in 2004. In parts of the south, however, intimidation and apathy kept turnout extremely low. "The Taliban are patrolling the area. Nobody voted and nobody could vote," said Haji Ahmad Shah

Khan, an elder in Nad Ali district of Helmand. On election day the chief of the Independent Election Commission (IEC) in Helmand, Abdul Hadee, estimated turnout in the province at under 10%. In some districts no votes were cast at all.

Results have not yet been collated, and the outcome remains unpredictable. Both Mr Karzai and Abdullah Abdullah (pictured above), his main rival among the 41 candidates, have already claimed victory. In his campaign Mr Karzai mortgaged his future government several times over for the support of a rogue's gallery of former warlords. The first published results, of 10% of the polling stations, showed the rivals almost neck and neck. But there was little to be drawn from this since results will vary massively across different provinces, following varied turnout and divisions by ethnicity and tribe. Many of the southern provinces that are Mr Karzai's ethnic-Pushtun heartlands have yet to be counted.

The suppressed vote across the south would seem likely to harm Mr Karzai, but his opponents accuse him of using the state apparatus to engage in a large-scale fraud, with the absence of observers in unstable areas allowing him to stuff ballot boxes freely. Indeed some unstable areas have returned more votes than early estimates of turnout would suggest. In Helmand, for instance, Western officials believe that in the district of Garmser about 5,000 people voted. But the ballot boxes arriving in the provincial capital, Lashkar Gah, contain about 20,000. In Musa Qala the discrepancy was between 9,000 and 18,000. Mr Hadee, the IEC official, now says that turnout in Helmand was 25%. Some Western officials reckon 20% of votes nationally may be fraudulent.

Electoral complaints passed the 1,000 mark in mid-week. However, proving them will be hard. Afghans often vote in blocks according to the dictates of local leaders, so irregularities are almost impossible to spot. Millions of extra voting cards are known to have been illegally registered. There has been no recent census to establish lists of voters.

So the country is entering dangerous waters. Dr Abdullah has promised to place his faith in the IEC and the Complaints Commission, and not to send his supporters onto the streets. This will earn him the gratitude of foreign powers. But the ethnic dimension to the election, with Dr Abdullah seen as a Tajik (he is actually of mixed ethnicity) and Mr Karzai as a Pushtun, has forced an underlying tension within Afghan society close to the surface. "The biggest danger is that Afghans will view their government as even more illegitimate than they already do," says John Dempsey, in Kabul for United States Institute of Peace, a Congressional think-tank. And as he notes, that would have consequences for the counterinsurgency.

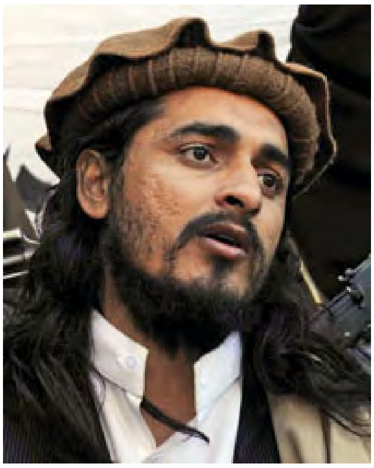
The Pakistani Taliban

Falling out

Aug 27th 2009 | ISLAMABAD
From The Economist print edition

At odds with each other as well as civilisation

AFP



Trigger-happy Hakimullah

IT TOOK 20 days for Pakistan's Taliban movement even to admit the death of its leader, Baitullah Mehsud, who, through force of personality and ideological conviction had turned his outfit into what American officials repeatedly called an "existential" threat to Pakistan. A power struggle gripped the Tehrik-e-Taliban Pakistan (TTP) after Mehsud was killed in his native South Waziristan by a missile fired by an American drone on August 5th. Competing factions emerged in what seemed to become a bloody succession battle, even as the group suffered from a wave of arrests, defections and surrenders.

The group, an umbrella for 13 constituent Taliban factions that came together under Mehsud in December 2007, was already under pressure. The Pakistan army, urged on by America, had launched an offensive in late April against the TTP's Swat chapter. Then in June the army moved on to the TTP's heartland in South Waziristan. It has since pounded them from the air, with help from American drones.

Three different senior Taliban militants have claimed to be the outfit's new boss, exposing the disarray the new leadership inherits. Then this week the leadership was formally won by Hakimullah Mehsud. Both he and his main rival, Waliur Rehman, come from Baitullah's Mehsud tribe of South Waziristan, which dominates the ttp. The picture is muddied by Pakistani intelligence officials, who claim that Hakimullah Mehsud, too, is dead, after a shoot-out with Mr Rehman, and is being impersonated by a relation.

Hakimullah Mehsud, thought to be 28, (and very much alive, say people who spoke to him this week) is known as a trigger-happy thug. Many in the Taliban preferred the calmer, more calculating Mr Rehman. A joint telephone call by the two rivals to the press to announce the new arrangements masks an uneasy truce.

Mr Rehman will run the all-important Waziristan region. So Hakimullah Mehsud will depend on him for men, cash and other resources. Saifullah Mahsud, an analyst based in Islamabad, thinks the leadership contest is not yet over but a compromise has been reached to enable the group to present a united front.

It seems almost certain that the Afghan Taliban intervened in the dispute, anxious to avoid further damage to the TTP. Hakimullah Mehsud had threatened to form a breakaway group and had to be accommodated. But he was also al-Qaeda's candidate. Even Baitullah Mehsud had struggled to rein in the violent excesses of Hakimullah and his cousin Qari Hussain, another TTP commander, who likes to chop up his victims with a knife and to brainwash children into becoming suicide-bombers.

The cousins emerged from, and remain involved with, Sipah-e-Sahaba, a banned Pakistani sectarian terror group, and its even more violent offshoot, Lashkar-e-Jhangvi. Al-Qaeda operates in Pakistan through surrogates. Lashkar-e-Jhangvi, which is linked to the 2008 bombing of the Marriott hotel in Islamabad and this year's assault on visiting Sri Lankan cricketers, is perhaps its closest ally.

The Pakistani Taliban's hold on the lawless tribal belt is crucial for both al-Qaeda and the Afghan Taliban, which use the area as a sanctuary. The group will remain a global menace. Mr Rehman calls Barack Obama "our foremost enemy". Despite Pakistan's offensive, Waziristan remains firmly in militant hands, with the army reluctant to move in on the ground. The TTP's geographical reach has been cut back; the new leadership will struggle to hold it together; and it no longer seems to pose that "existential" threat to Pakistan. But it remains a deadly terrorist outfit.

Thailand's political impasse

Orange, anyone?

Aug 27th 2009 | BANGKOK
From The Economist print edition

Red and yellow factions still find compromise elusive

TO ERR is human; to forgive, divine, was the pithy view of Alexander Pope. In three years of political turmoil and economic drift, Thailand has seen plenty of error. But forgiveness is in short supply. Some politicians are calling for an amnesty for the rival street demonstrators who have brought Bangkok to its knees in recent months and the security forces who cracked down on them. Others insist that any amnesty must include MPs who were barred from public office by the courts. Almost everyone agrees that Thailand can move beyond its impasse only when the warring sides call it quits.

But the battle is not over yet. Red-shirt protesters loyal to Thaksin Shinawatra, a former prime minister and self-exiled fugitive, plan to rally in Bangkok on August 30th. In response, Abhisit Vejjajiva, the current prime minister, has invoked a security law that allows him to send out the troops, as he did in April. Mr Abhisit knows he cannot rely on the police, whose ranks are sympathetic to the red-shirt camp.

The latest rally comes two weeks after over 20,000 red-shirts marched to Bangkok's Grand Palace to seek a royal pardon for Mr Thaksin, who was convicted last year over the sale of government-owned land to his wife. At least 3.5m people signed the petition to Bhumibol Adulyadej, the 81-year-old king, who has wide latitude to pardon wrongdoers. They did so over the strenuous objections of Mr Abhisit and his army backers, who said it was inappropriate, as Mr Thaksin was not behind bars. A royal pardon for the unrepentant Mr Thaksin is a non-starter. In a speech broadcast on August 22nd, King Bhumibol made no mention of the petition but warned once again that disunity was sinking Thailand.

Mr Abhisit, who took power last December after the courts dissolved a pro-Thaksin government, has refused to call an election until after parliament amends the constitution and agrees on broader political reforms. But he lacks bipartisan support. Puea Thai, the pro-Thaksin main opposition party, wants to reinstate the previous constitution that the army shredded after a coup in 2006. It also wants to overturn court-ordered bans on over 200 MPs, including Mr Thaksin. Mr Abhisit's Democrat Party rejects this but is evasive on its own formula for reform, if any.

For its part, Bhumjaithai, a pro-government block of Thaksinite defectors, has proposed a sweeping amnesty for both red-shirts and pro-monarchy yellow-shirts facing criminal charges. Security officials would also be off the hook. In the past political violence in Thailand has been followed by legal pardons, including one for Communist rebels in the 1980s. It is, say proponents, a Thai-style solution. So far, though, it has few takers. The Democrats argue that the law must run its course. Yellow-shirts want to see the police prosecuted for suppressing their rallies. Puea Thai's leader, Yongyoot Wichaidit, argues that the amnesty would do less for the reds than the yellows, whose leaders are accused of terrorism over the seizure of two airports.

It may be premature to talk of forgiveness, says Duncan McCargo of Leeds University. Previous amnesties did not come during fierce contests for power, but only after the dust had settled. Political reforms take years, not months, to fine-tune. But Mr Yongyoot sees little point in tinkering with a political system that his supporters think is deeply unjust. There is no way out, he growls. No wonder, then, that America's State Department is worried about Thailand. After a 14-year break, it is restarting bilateral aid in the name of strengthening democracy. It plans to finance NGOs as an alternative to colour-coded mobs.

Timor-Leste ten years on

Too few to mention

Aug 27th 2009 | DILI
From The Economist print edition

A young nation ponders what it has to celebrate

FOR months workers have been feverishly sprucing up Dili, Timor-Leste's scruffy capital. Façades have been painted, streets swept and banners festoon the city: "Goodbye, conflict: welcome, development". A few hundred cyclists have even braved the pot-holed roads for a "Tour de Timor" mountain-bike race. Timor-Leste's people are marking the tenth anniversary on August 30th of the referendum in which they voted for independence after a quarter-century of Indonesian occupation. Yet for most Timorese the highlight of the festivities is a scheduled performance by an Indonesian pop-star.

In a young country (the fertility rate is 7.8, among the highest in the world), most cannot recall the occupation. And the country's leaders have sought friendship with their big, powerful neighbour, refraining from pressing for punishment for the Indonesian soldiers guilty of the violence and arson that followed the vote in 1999. The efforts at reconciliation have paid off. Indonesian businessmen have slowly returned. Timorese students have flocked back to Indonesian universities.

The present government, formed after an election in 2007, is a fragile coalition led by Xanana Gusmão, the former head of the armed resistance. On the surface, it has succeeded in bringing stability. Almost all the refugee camps have closed, and their residents returned home. There has been no repeat of the rioting and gang-warfare that erupted in 2006. Rice and fuel subsidies have helped pacify the cities (but depressed rice production) and pensions for veterans of the resistance and vulnerable old people have calmed tensions in the countryside. The security forces have been given pay rises, ensuring their loyalty. People feel safer going out after dark. Shops are filled again with Indonesian imports.

To pay for all this Mr Gusmão doubled the state budget. He financed it by dipping into the fund established to manage the country's income from its gas and oil. The spending splurge has stoked allegations of nepotism and corruption. Even his own deputy as prime minister, Mario Carrascalão, has been quoted in the local press as saying that 20% of government spending is squandered. José Teixeira, of the main opposition party, Fretilin, says the country suffers a "resource curse". Mr Gusmão's charisma has waned since 2006. Fernanda Borges, an opposition MP, says that unless he stamps out the corruption "he is at risk of destroying the legacy of his years of freedom fighting".

Conditions in fact are in many ways worse than before 1999. Roads are not maintained and many villages are reachable only on foot. Farmers cannot get their produce to market. More than two-fifths of children aged six to 11 have never been to school. Atul Khare, the United Nations' senior official in the country, says it has to be satisfied with tiny steps forward. But the steps are so small that, especially outside Dili, few see evidence of the hundreds of millions of dollars spent in aid.

Moreover, the underlying causes of the violence in 2006—land disputes and the politicisation of the armed forces and civil service—have not been solved. A land and property law has still to be passed by parliament. The planned restructuring of the armed forces has not started. The UN, which has had missions in the country since 1999, is due to pull out by 2012.

The World Bank, in an internal report, laments that the long occupation has "left violence as a habitual way of dealing with disputes and frustration". Many Timorese agree that beneath the superficial calm lurks a serious danger of renewed turbulence. Many, especially in the countryside, are nostalgic for the benefits of Indonesian rule, when everything was cheaper and services were better; but not for the rule itself. Indonesia is a stable democracy now, and another long insurgency, in Aceh in Sumatra, ended in 2005 with a promise of the sort of autonomy the Timorese rejected. But whatever the hardships independence has brought, almost no one in Timor-Leste regrets choosing freedom.

Australia and Indonesia

The Balibo five

Aug 27th 2009 | SYDNEY
From The Economist print edition

Among so many dead in East Timor, a few now famous foreigners

Arenafilm

THE story of the "Balibo Five" is still a dark spot for relations between Australia and Indonesia. How five Australia-based television journalists died 34 years ago, trying to film Indonesia's invasion of the then Portuguese colony of East Timor, remains officially unresolved. A new film, shown this week in Dili, has reignited the affair in Australia.

The journalists perished in the remote village of Balibo, near the Indonesian border, in October 1975; their bodies were later burned. Indonesia has always claimed they died in crossfire between its soldiers and pro-independence fighters. Despite campaigns by the journalists' families, Australia has never challenged this version, as it has focused on building relations with Indonesia.

The first break in this official silence came only two years ago. A coroner in New South Wales found the journalists were killed by Indonesian special-forces soldiers under orders from Captain Yunus Yosfiah, their commander, to stop them disclosing Indonesia's attack on Balibo. Kevin Rudd, Australia's prime minister, responded then (when he was opposition leader) that "those responsible should be held to account". The coroner's report still sits with the police.

"Balibo" painstakingly reconstructs the journalists' deaths. The film tells the story through the figure of Roger East, a sixth journalist, who set out to discover what happened to them, and who was shot dead himself when Indonesian forces reached Dili. The young journalists had been tempting fate in a region then shut out of communication. Greg Shackleton, one of the five, scrawled an Australian flag on a Balibo wall in a forlorn bid for safety as the Indonesians approached. Robert Connolly, the film's director, says he wanted to show not just the injustice in the deaths of the journalists—and thousands of East Timorese—but "how meaningless national identity becomes at a moment when order breaks down completely".

Now that order is restored, Ben Saul, an international law expert, argues there is a case for pursuing the deaths of the Balibo Five as war crimes. Mr Connolly hopes Indonesia and Australia can be "tough and rigorous" about dealing with the truth at last. But with relations never better, and Indonesia still loth to investigate any of the abuses that took place under the long Suharto dictatorship that ended in 1998, the truth may remain buried.

Japan's election

Young swingers

Aug 27th 2009 | TOKYO
From The Economist print edition

With a plurality of voters undecided, "flexicon" enters the political lexicon

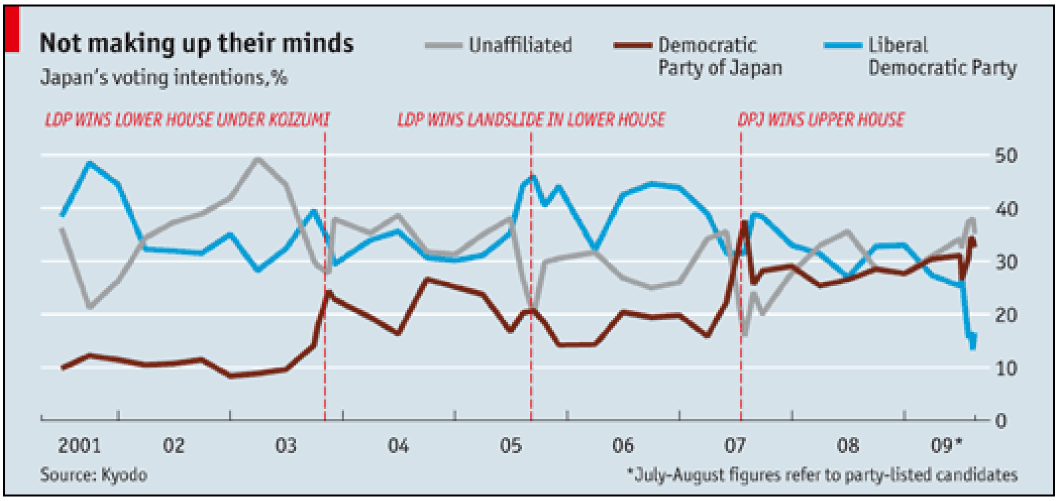
AFP

MANY campaign posters for Japan's general election on August 30th print the candidate's name in *hiragana*, a rudimentary, phonetic script first taught to children, rather than the formal *kanji*. This is in part to appeal to younger voters who are so disaffected by politics that they would probably not be familiar with a candidate's written name—but might recognise how it sounds.

When Japan goes to the polls for the powerful lower house of the Diet (parliament), the opposition Democratic Party of Japan (DPJ), is expected to trounce the Liberal Democratic Party (LDP), thus ending over 50 years of nearly continuous rule. In a recent survey, support for the DPJ was more than twice that for the LDP. But strikingly, an even bigger share of voters—a whopping 38%—said they were undecided.

These flighty voters, referred to as *yawarakai hoshu-so*, or "flexible conservatives", are the kingmakers of Japanese politics. Typically in their 30s, they are university-educated, middle-class, prefer stability to big changes and do not care much about politics. Shigeru Inaida, who is responsible for opinion polling at Kyodo, a Japanese news agency, notes that they tend to vote as a block, and can sway the outcome of elections. They played a large part both in the landslide victory in 2005 of Junichiro Koizumi, a former prime minister, and the LDP's upper-house defeat two years later.

Their opinions fluctuate wildly, but they can be decisive (see chart). In March 2003 around 50% of voters said they were unaffiliated; by the time of the election later that year, that share had fallen by half as the "flexicons" backed Mr Koizumi. More dramatically, they shifted almost *en masse* in July 2007. The percentage of unaffiliated voters fell from 36% to 16% that month, as they moved to the DPJ.



The lesson for the 2009 election is that winning the flexicons is crucial. To this end, the DPJ has put forward youthful, telegenic candidates; typical LDP candidates are in their late 60s and have little to say on matters affecting younger voters.

That strategy has its attractions too. The elderly vote in greater numbers than the young. In the 2005 election, the turnout of voters in their 60s was 83%, far higher than among those in their 30s (around 60%) and 20s (a modest 46%). And winning the flexicon vote is difficult. A defining characteristic, after all, is a lack of interest in politics. But Yutaka Oishi of Keio University argues that many also feel that if they are to bother voting, they should at least back a winner. So their biggest impact is to re-inforce front-runners, turning close victories into landslides. This may explain why the DPJ's lead has widened just before the election: the flexicon herd is migrating.

A ban on internet campaigning during the election hardly helps woo young voters. Some DPJ politicians claim it is a way for the LDP to thwart the opposition, which enjoys more support from younger, wired voters. And Japan, an ageing society, badly needs the energy and ideas the young could bring to politics. Their influence may, in fact, be undercounted: telephone surveys call fixed-line phones, and younger people tend to own only mobiles.

The reshaping of Iraqi politics

Blowing a hole in the political landscape

Aug 27th 2009 | BAGHDAD
From The Economist print edition

The prime minister's political career is the latest casualty of the upsurge in violence

AP

LIKE a hormonal teenager, Iraqi politics evolves in spurts. Just take these past weeks. The insurgency has revived, culminating in a series of audacious and bloody attacks in the heart of Baghdad. And that has turned the fortunes of the prime minister, Nuri al-Maliki, on their head. From being a shoo-in at the next election, the man who was supposed to have tamed the terrorists is now looking more like a has-been. Rivals are lining up to take him on and old alliances are unravelling. All that Iraqis know for sure is that they have reached another turning-point in their turbulent post-invasion history.

The biggest surprise is the fracturing of the Shia political establishment. Oppressed under Saddam Hussein, the majority Shias grabbed power in the first free elections and held on despite endless crises. Their governments benefited from sectarian unity, which they maintained through bullying and haggling. But on August 24th the leading Shia party, the Islamic Supreme Council of Iraq, and some of its allies dumped Mr Maliki, another Shia. They formed a new slate, the Iraqi National Alliance (INA), that will oppose his Dawa party in national elections due to be held in January.

The catalyst for this was the Baghdad bombing last week that destroyed the foreign and finance ministries, killing at least 95 people. Mr Maliki had styled himself as the guarantor of a safe and stable Iraq, claiming to have faced down militants, pushed back Iranians and sent Americans to their barracks. In the past year that has made him surprisingly popular. A virtual political unknown four years ago, he thought re-election was within reach. But over the past week, Iraqi television has endlessly replayed video footage of a lorry inching towards the foreign ministry and blowing up. Iraqis call it their “9/11” tape. Within days Mr Maliki lost the backing of his coalition.

The Shia elders had never liked or trusted him. They heaved him into office in 2006 simply because they could not agree on championing one of their own. They hoped for a malleable weakling; instead they got a bold but impulsive leader. The aftermath of the foreign-ministry bombing was a rare chance to cut Mr Maliki down to size, leaving the former bead-seller from the Damascus souk with no other choice but to strike out on his own.

Mr Maliki has thus announced a plan to set up a multi-confessional coalition, making a virtue of his predicament. After alienating Kurds and Sunnis for the past three years, he is now trying to charm them. This week he met tribal sheikhs from Anbar province, who initially supported the anti-Shia insurgency; he also told the once-persecuted Kurds that he “feels their pain”.

Nonetheless, Mr Maliki has little chance of retaining the premiership next year. In provincial elections this January, his party did well. But even then it scored a national average of only 15%. His consolation is that the parties which now make up the new INA won just 17%.

The new alliance is well funded but suffers from having no clear leader. Critics say it is little more than a vehicle for ambitious party barons, most of whom despise each other. Ibrahim al-Jaafari, a former prime minister, hankers after a return to office. "If the Iraqi people want it, I will not let them down," he said. In his way stands Adel Abdul Mahdi, today's vice-president. But he has been hurt by a $7m bank robbery involving some of his security guards. A compromise candidate could be Ahmed Chalabi, the shadowy former Pentagon ally who is now close to Iran, or Qasem Daoud, a former national-security adviser who is valued by Americans and clerics alike. Mr Daoud has been openly critical of the prime minister for his decision to remove concrete blast walls in Baghdad days before the recent attack.

Mr Maliki's Dawa party and the INA could still make up, but the gulf appears deep. Mr Maliki insists on being the sole candidate for prime minister. That would allow him, if elected, to cement Dawa's position ahead of the more hardline sectarian parties. Mr Maliki's best chance now is to suppress the Sunni insurgency once more and win back popular support. As a first step, he replaced his intelligence chief and broadcast the confession of the alleged mastermind behind the ministry bombing.

Yet much more is required. Iraqis have been rattled by the renewed violence. In Baghdad the streets are half-empty and shops close early. None of the political parties has so far worked out how to cater to public fear. Should they switch to tried and tested sectarian politics, or show leadership by ditching it altogether? Whoever finds the answer is likely to win the next election and dominate post-American Iraq. But for the moment, all is in flux.

Iran's Revolutionary Guards

Showing who's boss

Aug 27th 2009 | TEHRAN
From The Economist print edition

Iran's hard men purge opponents and line their pockets

AFP

God and mammon

BACK in 2007 the commander of the Islamic Revolutionary Guards Corps (IRGC) announced an important change of mission. From now on the main task for his 120,000 guards, as well as for the 3m or so members of the *baseej* paramilitary volunteer force that had just, and for the first time, been placed formally under his command, would be to deal with what he called internal threats. Just what he meant has grown increasingly clear since the disputed presidential elections in June that returned Mahmoud Ahmadinejad, an ex-guardsman, to power. The hardline faction centred on the IRGC embraces a network of former officers and like-minded men in other security branches. Despite outrage over the post-electoral crackdown, this faction has escalated its offensive against dissent even as it consolidates its hold over Iran's politics and economy.

On August 24th state television broadcast the fourth show trial of prominent reformists in as many weeks. Between the prosecutor's dramatic accusations and the defendants' clearly coerced confessions, it looked as if the point was to destroy the reformist opposition for good and to broaden the purge to include powerful centrists, too. The fulsome confessions inculpated Iran's two main reformist parties, as well as Muhammad Khatami, a reformist who served as president from 1997 to 2005, as actors in an alleged plot to discredit the June elections. Such charges chime with a chorus of calls by Mr Ahmadinejad's allies, including the IRGC chief, to ban the parties outright and jail their leaders.

Some testimony also implicated close relatives of Hashemi Rafsanjani, another former president and a pragmatic conservative who has long straddled Iran's complex power structure, playing off its factions to his advantage. The attack on Mr Rafsanjani's family signalled an intention to go after one of the great remaining obstacles to Mr Ahmadinejad, whose chief supporter is none other than Iran's Supreme Leader, Ayatollah Ali Khamenei. He lowered the temperature only slightly this week by declaring on television that he had seen no proof that the opposition leaders are linked to Britain and America, as the hardliners like to presume.

Meanwhile, Mr Ahmadinejad has forwarded a cabinet list for parliamentary approval that reflects the influence of his IRGC cronies. The ex-guardsmen and spooks down for ministerial posts include a petroleum minister with no experience of the oil industry (but a background in an IRGC think-tank) and an intelligence minister who used to represent the Supreme Leader inside the IRGC command. Some 20 staff have already been sacked from the intelligence ministry for being too moderate. Critics of Mr Ahmadinejad are expected to mount some parliamentary opposition to his choices. But with the chief posts pre-anointed by the Supreme Leader, the arch-conservative, militaristic tone of the next cabinet is ensured.

The IRGC leaders have united behind Mr Ahmadinejad not only to defend their shared idea of an Iran that is less of a republic but more stridently "Islamic". They also want to protect a moneymaking machine. The IRGC controls a big chunk of the 70% or so of Iran's economy that is state-run, with stakes in everything from dental and eye clinics to car factories and construction firms. Even "privatised" assets seem to fall into its hands or those of friends. The real private sector has grown hoarse crying foul, as recently when the state privatisation agency quietly passed ownership of Tehran's main convention centre to an army pension fund.

Because their accounting is off-the-books and the ownership of these businesses is notoriously opaque, it is difficult to gauge their value. But in his first term Mr Ahmadinejad steered billions in uncontested oil, gas and large-scale infrastructure contracts to the IRGC. Its main construction firm, Khatam al-Anbya, could barely keep up with the workload. In 2006 alone the subsidiary received $7 billion to develop gas-

and oilfields and for the refurbishment of the Tehran metro system. “It’s got much worse in the last four years,” says one local market analyst. “They’ve become a mafia. They undercut bids by abusing their access to free labour and exploiting their intelligence capabilities [to spy on competitors].”

The IRGC is also widely rumoured to control a near monopoly over the smuggling of alcohol, cigarettes and satellite dishes, among other things in great demand. One MP reckons these black-market deals net it $12 billion a year. This creates not just a drain on state coffers but an incentive to radicalise the regime; the IRGC’s commanders personally profit from Iran’s isolation, since it creates more demand for contraband. Some American congressmen have called for an embargo on petrol imports if Iran does not come to terms over its controversial nuclear programme. The IRGC might even relish that.

Morocco and its king

Popular but prickly

Aug 27th 2009 | RABAT
From The Economist print edition

Moroccans must not measure the king's popularity. But they like him anyway

THE country's grandees recently gathered in Tétouan, a pretty town perched on the edge of the Rif mountains, not far from the Mediterranean. Ministers, senior civil servants, imams and notables in embroidered robes rubbed elbows with uniformed military officers. King Muhammad VI, sporting the traditional garb of Moroccan sultans, passed slowly through the crowd astride a purebred Arab stallion, as servants sheltered him from the scorching sun with a giant parasol.

This was the ceremony of the *baya*, an annual pledge of allegiance to the monarch that draws on centuries of tradition as well as Muslim custom. The *baya* may be the sturdiest pillar of Morocco's political system, symbolically affirming that the monarchy is somehow more representative of popular power than a weak parliament or pliable judges. For all its claims of democratic reform, Morocco is still, constitutionally and in practice, an absolute and at times capricious monarchy.

Muhammad has just celebrated his first decade on the throne and can genuinely boast of being a popular king. Although, as a magazine publisher recently discovered, it is illegal to prove it. The editions of *TelQuel* and *Nichane*, French and Arabic-language weeklies best known for being fiercely secular, were seized and destroyed by the authorities on the ground of "disturbing public order" because they had carried a public-opinion poll on the king.

The results were not the problem. It was found that 91% of Moroccans felt Muhammad had done well in his first decade in power. Rather, as a government spokesman put it, "the monarchy cannot be the subject of debate, even through an opinion survey." Predictably, Morocco's lively blogosphere reacted with a campaign around the slogan "I am one of the 9%".

It is generally accepted that Muhammad is in many ways a better king than his often mercilessly repressive father. Yet unease is growing about the monarchy's direction, particularly its reluctance to enact constitutional reforms that would reduce the monarch's power in favour of elected institutions such as the parliament.

Indeed, the king brooks no criticism. Reporters Without Borders, an international media watchdog, says that in the past ten years Moroccan journalists have been sentenced to more than 25 years in prison and $2.9m in fines, hamstringing what was once the Arab world's most vibrant media. Most of those punishments were related to somehow offending the monarchy.

Most tellingly, *Le Journal Hebdomadaire*, a mould-breaking independent magazine born in the more open final years of the previous king's reign, is being sold after years of financially draining legal battles and, its owners say, an advertising boycott unofficially ordered by the palace. Many of its staff fear the new owner will be more timid. *Le Journal*'s founder, Aboubakr Jamai, who was driven into exile several years ago to escape libel fines and now lives in Spain, says the press has been "domesticated" by the king's powerful counsellors, for the most part his schoolmates from the Royal College in Rabat, the capital. The political and economic elite has, he says, become tamer.

It is not clear how much the average Moroccan, raised in a tradition of deference to the monarchy, cares about the lack of political liberalisation. Indeed, the *Tel Quel* poll suggests he remains in awe of the monarch. Nearly half of those polled reckoned Morocco was a democracy. Of the third who said it was authoritarian, quite a lot thought this a good thing. Many apparently think the king's growing business clout is good for the country's overall economy. Muhammad VI's personal fortune is estimated at $2.5 billion and royal businesses may account for 6% of GNP.

If Muhammad VI, at 46, is loth to encourage political reform, he does claim to back social change and economic equality. A highlight of his reign so far has been a big reform of family law to give more rights to women. Yet in this the king may be ahead of his subjects: half of Moroccans say they feel the reform has

gone too far. And despite economic growth of around 5% a year for the past decade, plus bigger-than-ever remittances from abroad, as well as large investment in infrastructure, the self-styled “king of the poor” has failed to convince most Moroccans that poverty has been much reduced either.

The decline in Kenya's safaris

Campfire blues

Aug 27th 2009 | NAIROBI
From The Economist print edition

The country's iconic tourist business is in trouble

Corbis

Rhino and Teddy, once a viable business-model

"AS I stepped to one side of the bush so as to get a clear aim, with Slatter following, the rhino saw me and jumped to his feet with the agility of a polo pony. As he rose, I put in the right barrel, the bullet going through both lungs. At the same moment he wheeled, the blood spouting from his nostrils, and galloped full on." So wrote the American president, Theodore Roosevelt, on his safari to what is now Kenya, exactly a century ago.

Roosevelt's expedition helped make Kenya the capital of the safari business. Elephant guns have given way to telephoto lenses, but the essentials remain: dawn and dusk game drives, stately canvas tents guarded by warriors with spears, and drinks around the campfire, with the mawing and bellowing of animals in the liquid black night beyond. Pitched somewhere between a circus and the Animal Planet television channel, the safari has become a mainstay of the Kenyan economy.

Still, it has always been a boom-and-bust business, and now it is closer to bust. African tourism as a whole is doing better than most, but Kenya's safari operators have been hit by a particular series of body blows: al-Qaeda attacks on Nairobi and Dar es Salaam in 1998; again on the coastal resort of Mombasa in 2002; last year's election crisis, with its televised violence; and then the global financial crisis. Camps in the Mara game reserve have been mostly empty this year—bad news for mobile camps and a disaster for permanent ones. Even in lean times operators have to pay fixed fees, along with taxes and shady incentives to officials and local elders. Soaring costs have seen Kenya lose business to Botswana, Namibia and South Africa.

Kenya's tourism boosters think the government's response has been weak, merely a few adverts and a reduction in the price of an entry visa. What is needed, they say, is a complete overhaul of the safari business. Grander operators, who charge upwards of $500 a night, are suffering at the hands of budget safari hotels, whose minibuses crowd in on the animals, and whose latrines and rubbish pollute wild areas. A recent UNESCO report on the Ngorongoro reserve across the border from the Mara in Tanzania says the minibuses are causing permanent damage.

Private game reserves may be an alternative to stressed national parks. Several of these have established a plush model for visitors and animals alike. But the cost of keeping the animals in and the poachers out may make them uneconomic. Another tack would be to spruce up the disdained safari hotels to attract wealthier Chinese, Indians and Africans. Fairmont, a hotel company, has spent $15m smartening up its Mount Kenya Safari Club. Kenyans hope that President Barack Obama will return to the land of his father's

birth next year after attending the World Cup in South Africa. But it will take more than a quick Rooseveltian safari (without the guns) to preserve this flagging business.

Portugal's drug policy

Treating, not punishing

Aug 27th 2009 | LISBON
From The Economist print edition

The evidence from Portugal since 2001 is that decriminalisation of drug use and possession has benefits and no harmful side-effects

Illustration by Peter Schrank

IN 2001 newspapers around the world carried graphic reports of addicts injecting heroin in the grimy streets of a Lisbon slum. The place was dubbed Europe's "most shameful neighbourhood" and its "worst drugs ghetto". The *Times* helpfully managed to find a young British backpacker sprawled comatose on a corner. This lurid coverage was prompted by a government decision to decriminalise the personal use and possession of all drugs, including heroin and cocaine. The police were told not to arrest anyone found taking any kind of drug.

This "ultraliberal legislation", said the foreign media, had set alarm bells ringing across Europe. The Portuguese were said to be fearful that holiday resorts would become dumping-grounds for drug tourists. Some conservative politicians denounced the decriminalisation as "pure lunacy". Plane-loads of foreign students would head for the Algarve to smoke marijuana, predicted Paulo Portas, leader of the People's Party. Portugal, he said, was offering "sun, beaches and any drug you like."

Yet after all the furore, the drug law was largely forgotten by the international and Portuguese press—until earlier this year, when the Cato Institute, a libertarian American think-tank, published a study of the new policy by a lawyer, Glenn Greenwald.* In contrast to the dire consequences that critics predicted, he concluded that "none of the nightmare scenarios" initially painted, "from rampant increases in drug usage among the young to the transformation of Lisbon into a haven for 'drug tourists', has occurred."

Mr Greenwald claims that the data show that "decriminalisation has had no adverse effect on drug usage rates in Portugal", which "in numerous categories are now among the lowest in the European Union". This came after some rises in the 1990s, before decriminalisation. The figures reveal little evidence of drug tourism: 95% of those cited for drug misdemeanours since 2001 have been Portuguese. The level of drug trafficking, measured by numbers convicted, has also declined. And the incidence of other drug-related problems, including sexually transmitted diseases and deaths from drug overdoses, has "decreased dramatically".

There are widespread misconceptions about the Portuguese approach. "It is important not to confuse

decriminalisation with depenalisation or legalisation," comments Brendan Hughes of the European Monitoring Centre for Drugs and Drug Addiction, which is, coincidentally, based in Lisbon. "Drug use remains illegal in Portugal, and anyone in possession will be stopped by the police, have the drugs confiscated and be sent before a commission."

Nor is it uncommon in Europe to make drug use an administrative offence rather than a criminal one (putting it in the same category as not wearing a seat belt, say). What is unique, according to Mr Hughes, is that offenders in Portugal are sent to specialist "dissuasion commissions" run by the government, rather than into the judicial system. "In Portugal," he says, "the health aspect [of the government's response to drugs] has gone mainstream."

The aim of the dissuasion commissions, which are made up of panels of two or three psychiatrists, social workers and legal advisers, is to encourage addicts to undergo treatment and to stop recreational users falling into addiction. They have the power to impose community work and even fines, but punishment is not their main aim. The police turn some 7,500 people a year over to the commissions. But nobody carrying anything considered to be less than a ten-day personal supply of drugs can be arrested, sentenced to jail or given a criminal record.

Officials believe that, by lifting fears of prosecution, the policy has encouraged addicts to seek treatment. This bears out their view that criminal sanctions are not the best answer. "Before decriminalisation, addicts were afraid to seek treatment because they feared they would be denounced to the police and arrested," says Manuel Cardoso, deputy director of the Institute for Drugs and Drug Addiction, Portugal's main drugs-prevention and drugs-policy agency. "Now they know they will be treated as patients with a problem and not stigmatised as criminals."

The number of addicts registered in drug-substitution programmes has risen from 6,000 in 1999 to over 24,000 in 2008, reflecting a big rise in treatment (but not in drug use). Between 2001 and 2007 the number of Portuguese who say they have taken heroin at least once in their lives increased from just 1% to 1.1%. For most other drugs, the figures have fallen: Portugal has one of Europe's lowest lifetime usage rates for cannabis. And most notably, heroin and other drug abuse has decreased among vulnerable younger age-groups, according to Mr Cardoso.

The share of heroin users who inject the drug has also fallen, from 45% before decriminalisation to 17% now, he says, because the new law has facilitated treatment and harm-reduction programmes. Drug addicts now account for only 20% of Portugal's HIV cases, down from 56% before. "We no longer have to work under the paradox that exists in many countries of providing support and medical care to people the law considers criminals."

"Proving a causal link between Portugal's decriminalisation measures and any changes in drug-use patterns is virtually impossible in scientific terms," concludes Mr Hughes. "But anyone looking at the statistics can see that drug consumption in 2001 was relatively low in European terms, and that it remains so. The apocalypse hasn't happened."

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*"Drug Decriminalisation in Portugal: Lessons for Creating Fair and Successful Drug Policies." By Glenn Greenwald.

Israel and Sweden row

Blog wars

Aug 27th 2009 | COPENHAGEN
From The Economist print edition

A Nordic newspaper's newsmaking

BARELY two months into its six-month presidency of the European Union, Sweden's government is entangled in a scrap with Israel. Because it pitches Swedes' cherished free-speech principles against Middle Eastern sensibilities, it is loaded with a wearying sense of déjà vu—and a potential to escalate.

It started on August 17th when *Aftonbladet*, a Swedish tabloid, published an incendiary article claiming that Israeli soldiers had harvested the organs of some Palestinians whom they had shot. Within hours, Israel's deputy foreign minister had denounced the article for racism and demanded that it be condemned by the Swedish government.

Sweden's ambassador in Tel Aviv obligingly called the article shocking. But she was countermanded by the Swedish foreign minister, Carl Bildt. Israel, he wrote in his blog, wanted the Swedish government to distance itself from the article or take steps to prevent a replication, but that was not how the country worked. This robust defence of freedom of expression was endorsed by the prime minister, Fredrik Reinfeldt.

Matters quickly deteriorated. An internet campaign called for a boycott of Swedish companies, including IKEA and Volvo. A planned official visit by Mr Bildt to Israel may be under threat. Lawsuits have begun. And Sweden stands accused by prominent Israelis, including the prime minister, Binyamin Netanyahu, of blood libel and anti-Semitism.

This has uncomfortable echoes of Denmark's cartoon wars, started when a Danish newspaper published drawings of the prophet Muhammad in late 2005. Sweden's position as EU president leaves it exposed, even though it has in the past won much kudos with Israel. During the second world war, Raoul Wallenberg, a Swedish diplomat, saved thousands of Jews from the Nazi gas chambers and Sweden also sheltered Danish Jews.

Recent relations have been less smooth. Sweden's presidency plans included ambitions for an active EU role in the Middle East that Israel may not welcome. Early on, the Swedes ruffled Israeli feathers by calling the eviction of Palestinian families in east Jerusalem illegal under international law. Mr Netanyahu may have reasons of his own for stirring the pot. Next month will see a critical UN report on human-rights abuses during Israel's war on Gaza at the turn of the year. Causing a stink about absurd Swedish allegations could usefully tire people of the subject and muddle the details when they come out.

The left and the German elections

Red sky in the west?

Aug 27th 2009 | SAARBRÜCKEN
From The Economist print edition

How a minor political earthquake in Saarland may shake all of Germany

EPA

Left forward with Lafontaine

LAST year a collapse in a coal mine triggered a small earthquake in Saarland, a speck of a state near Germany's border with France. On August 30th Saarland may set off a man-made quake that could reverberate even farther. That is because an election there may usher in the first government in a west German state in which the Left Party, heir to East Germany's communists, gets a share of power.

Two other states, Saxony and Thuringia, will also hold elections on August 30th. All three are ruled by the Christian Democratic Union (CDU), the party of Chancellor Angela Merkel, who is running for re-election. In Saxony the incumbent looks safe. But the CDU in Saarland and Thuringia could be toppled by the Left Party, the Greens and the Social Democratic Party (SPD), Ms Merkel's grand coalition partner but also main rival. In Thuringia, once part of East Germany, the Left Party could outpoll the others, winning for the first time the chance to name a state premier (though the SPD and the Greens will not accept this).

The results will be subject to ferocious political spin. The SPD will portray any defeat of the CDu as a portent for the September 27th federal election. But if the SPD opens coalition talks with the Left Party the CDU will raise the spectre of a communist comeback, hauling out the "stinky red socks" of past campaigns, as the SPD's general secretary, Hubertus Heil, calls them. More important in the long run, any left-wing alliances could eventually provide a model for a national coalition.

Ms Merkel is still expected to win the federal election and rule either with the SPD (again) or with the liberal Free Democrats. The SPD has little prospect of translating state triumphs to the federal level now, because it rules out a coalition with the Left Party. But, although the Left Party no longer seems to be growing (in Thuringia it may win fewer votes than in 2004), its performance in Saarland could bring closer the day when it is considered as a possible partner at federal level.

Its prospects in Saarland are largely due to one man: Oskar Lafontaine, a political giant in a state of just 1m people. A Social Democrat for most of his career, he smartened up Saarbrücken, the capital, as mayor and was then a mainly pragmatic state premier for almost 14 years. His brief spell as German finance minister in 1998-99 was contentious. But in March 1999 he quit both that job and the SPD chairmanship, an act for which the party cannot forgive him. His entry into the Left Party made it a force to be reckoned with in western Germany: he is now co-chairman.

Mr Lafontaine is given to inflammatory remarks such as accusing "foreign workers" of stealing German jobs. He is as polarising within the Left Party as outside it. Some easterners recently quit the party, complaining of his "vindictive egomania". But in Saarland he is remembered for shoring up the steel industry and the self-esteem of a state that joined Germany only in 1957 and refers to the rest of the country as "the Reich". In this weekend's poll the Left Party may get 15% of the vote, almost double its best previous result in the west.

With the votes of the SPD and Greens that may be enough to unseat the CDU premier, Peter Müller. Saarland's economic growth has been the second-fastest among German states since 2000, thanks to booms in steel, cars and machinery. But Mr Müller has closed 100 schools and introduced university tuition fees, both unpopular measures. Thuringia's premier, Dieter Althaus, has a similar legacy of success and disgruntlement (plus a manslaughter conviction after accidentally killing a fellow skier last winter).

Mr Müller's SPD challenger, Heiko Maas, a stiff, conscientious 42-year-old, would prefer to govern just with the Greens but would accept the Left Party as a junior partner if necessary. The Greens themselves

might balk, perhaps preferring a “Jamaica” coalition with the CDU and FDP instead. Coalition building in Thuringia will be messy because the SPD and the Greens will not accept a Left Party premier. But in Saarland, the Left Party could yet be starting a minor revolution that one day stretches as far as Berlin.

Turkey and the Kurds

Peace time?

Aug 27th 2009 | BATMAN AND DIYARBAKIR
From The Economist print edition

The Turkish government is preparing a serious plan to settle its Kurdish problem

ON MAY 1st 1920 Kemal Ataturk, father of modern Turkey, told the fledgling parliament that "north of Kirkuk there are Kurds as there are Turks, and we never discriminated against them." Yet for most of the past 80 years those of Turkey's 14m-odd Kurds who dared publicly to identify themselves as such have been brutally repressed, kicked out of their villages, tortured, jailed or killed.

The Kurds have fought back in rebellion after rebellion. None so violent or so long as that launched in 1984 by the outlawed Kurdistan Workers Party (PKK). Over 40,000 people, many of them PKK fighters, have died in a terrorist campaign that has cost the state billions of dollars, blotted its international image, and stymied Turkey's efforts to become a full-fledged democracy.

Successive governments have mumbled about dealing with the Kurdish problem, only to be stopped by Turkey's hawkish generals. But now a confluence of circumstances is raising hopes of a more lasting solution under the leadership of Turkey's prime minister, Recep Tayyip Erdogan, who has staked his political future on this issue.

In a ground-breaking speech in parliament earlier this month, Mr Erdogan provoked tears when he spoke of the common pain of Turkish and Kurdish mothers who had lost sons in the conflict. His interior minister, Besir Atalay, has been making the rounds of assorted politicians and civic leaders to build consensus for an as yet unarticulated plan. Mr Erdogan, who has long shunned the largest Kurdish party, the Democratic Society (DTP), for being the PKK's political front, met its leader, Ahmet Turk, in early August.

The government's plan is said to include easing remaining bans on Kurdish broadcasting, allowing Turkified villages to regain their Kurdish names, setting up Kurdish language and literature departments in universities and scrapping laws under which thousands of young Kurds are jailed for allegedly acting for the PKK (usually for no more than chanting PKK slogans or throwing stones at police). "This time the government means real business," concludes Henri Barkey, an American academic who has studied the Kurds.

In the largely Kurdish city of Batman, Mufide Agaya, whose son is among thousands of Kurds who went missing at the height of the conflict in the mid-1990s, agrees. "I now have hope that, dead or alive, I will recover my boy." Local prosecutors have been unearthing the remains of victims of the once rampant "mystery murders" carried out by rogue members of the security forces. In Diyarbakir, the de facto capital of the Kurdish region, where prison inmates were once force-fed their own excrement, banners reading "Qirej Nekin" (Kurdish for "don't litter") line the streets. Once officials would have been jailed just for putting them up.

The trickiest part of Mr Erdogan's "Kurdish overture" is how to get the PKK to stop fighting without negotiating with their imprisoned leader, Abdullah Ocalan, who continues to hold sway over both his men and millions of ordinary Kurds. The main opposition parties have already blasted Mr Erdogan for alleged treason. The obvious way out would be to use the DTP as a proxy, rather as Britain used Sinn Fein to deal with the IRA. The trouble is that the notoriously egocentric Mr Ocalan cannot bear to remain out of the limelight. He now says he will unveil his own road map for peace. Although recent opinion polls show 45% of Turks supporting Mr Erdogan's Kurdish overture, a deal that followed overt bargaining with the PKK would be tricky to sell at home.

At least this time the army is behind the government. The chief of the general staff, Ilker Basbug, has grumbled about undermining the "unitary state" and injecting ethnicity into the constitution. But a string

of leaks about attempted coups and botched operations against the PKK have dented the generals' image. Many of those most likely to torpedo a Kurdish deal are being prosecuted in the Ergenekon case against an alleged network of anti-government plotters. General Basbug has long conceded that military means alone cannot solve the Kurdish problem.

The withdrawal of American troops from Iraq could also work in favour of peace. As their American mentors leave, the Iraqi Kurds are turning to Turkey for protection. In exchange they seem willing to limit the movements of some 3,000-5,000 PKK fighters based in their region and to help disarm and repatriate them to Turkey under a proposed amnesty.

More than Mr Erdogan's career is at stake. So is Turkey's future. A new generation of dissatisfied and radical Kurds could easily unleash a cycle of violence that even the PKK might be unable to control. What is most heartening is that the Kurdish initiative is not merely about responding to European Union pressure: it is a home-grown affair. And the onus is as much on the PKK and its allies as on the government to ensure that it succeeds. It will not be easy, but Mr Erdogan seems determined to plough on. If he succeeds, says Sezgin Tanrikulu, a human-rights lawyer in Diyarbakir, the Kurds will flock to back him—and Ataturk's words will no longer ring so hollow.

Hungary and Slovakia

Frost bite

Aug 27th 2009 | BRATISLAVA
From The Economist print edition

Icy relations between Hungary and Slovakia turn even frostier

INSISTING on good manners does not end quarrels, but over time it can make them obsolete. That was the recipe the European Union applied to its new members in 2004. For Hungary and Slovakia, at least, it is no longer working.

The latest spat came on August 21st, when Slovakia stopped the Hungarian president, Laszlo Solyom, from crossing its border. On an ostensibly private trip, he planned to unveil a statue of St Stephen, the first king of Hungary, in the predominantly Hungarian city of Komarno, in southern Slovakia. This was not just a diplomatic snub, but also a breach of EU rules on freedom of movement.

Slovaks are prickly about Hungary, which they see as an unrepentant former imperial power ("a thousand years of oppression" is a common phrase). St Stephen is seen as an unpleasant magyariser and Mr Solyom's activities as revanchist. Hungarians dismiss this as paranoia. What they mind about is the rights of compatriots stranded by the dismemberment of Hungary after the first world war. Hungarians form sizeable minorities in Romania and Serbia; in Slovakia they are a tenth of the population. Slovakia has come under particular scrutiny since the hardline Slovak National Party joined the ruling coalition in 2006. In July the government passed a language law to promote Slovak that Hungarians see as discriminatory.

Condemnation of Mr Solyom's planned visit came from Slovakia's president, prime minister and foreign minister. All insisted that it was the date they objected to most. August 21st is the anniversary of the Soviet-led invasion that crushed the then Czechoslovakia's "Prague spring" in 1968, and Hungary was one of the Warsaw Pact countries that took part.

That excuse seems flimsy. But Hungary's claim that St Stephen is part of the region's common heritage might be stronger had any Slovak dignitaries been invited to the statue's unveiling. Komarno has declined to find a prominent place for statues of St Cyril and St Methodius, revered by Slovaks and other Slavs for their missionary work in the ninth century.

Outsiders find it hard to have an influence. The European Socialists temporarily suspended the membership of the Smer-SD party led by the Slovak prime minister, Robert Fico, but nobody seemed to care. The EU has not taken a stance on the language law. Some hope that things will improve as the fortunes of Jan Slota, the Slovak National Party leader, fade. He specialises in inflammatory attacks on Hungarians (and gypsies and Germans) and some of his supporters are racist.

Scandals are indeed catching up with Mr Slota's party. Mr Fico recently deprived it of the environment ministry, one of the three cabinet portfolios it holds. But Mr Slota is unlikely to take his party out of government altogether. And the row with Hungary suggests that Mr Fico is all too ready to play the nationalist card himself.

That may not make a huge difference now. But if the Hungarian conservative leader, Viktor Orban, wins the election that is likely next year, Slovakia may find its needling meets a more vigorous response. It is easy to stir up rows based on old grievances—far harder to calm them down.

Economist.com WORLD EUROPE

Illegal migration to Italy

Boat-race people

Aug 27th 2009 | ROME
From The Economist print edition

No matter the response, thousands of migrants still cross the Mediterranean

AFP

FROM her hospital bed, Titi Tazrar, one of only five migrants who survived a crossing from Libya, described how 73 other passengers had died. They included three pregnant women who aborted at sea. "Some died because they fell into the sea at night," said the 27 year-old Eritrean. "The pregnant women aboard suffered the most. We didn't know how to help or comfort them. But soon after losing their children they too died."

On the very day when Ms Tazrar gave her account, a game designed by Renzo Bossi, son of the Northern League's leader, Umberto Bossi, called "Bounce back the clandestine migrant", was removed from his Facebook site. A failure to block enough boats led to a message: "Try again…next time you'll manage to show you're a true Leaguer!"

Since May Italian vessels finding migrants in international waters have returned them to Libya instead of taking them to Italy where (whether or not they won asylum) most have tended to remain or else travelled to another EU country. The rescue of the 12-metre craft on which Ms Tazrar was found on August 20th triggered the biggest row yet. The church has been critical: the head of the Vatican's migrants department, Antonio Maria Veglio, is locked in an acrimonious dispute with a leading Northern League figure, Roberto Calderoli. This matters, for history suggests that Italian governments at odds with the church do not last long. And Mr Berlusconi is already in bad odour with the clergy over his private life.

Yet some of the opprobrium heaped on his government's immigration policy is misguided. The real objection is that the new approach prevents migrants from applying for asylum even if they are entitled to humanitarian protection (typically around a third of Mediterranean boat people qualify, according to the Italian government). It then forces them back to Libya, an undemocratic state whose leader scoffs at notions of human rights.

But there is no evidence that Italy is actually ignoring the plight of those, like Ms Tazrar, who manage to reach its territorial waters. Officials insist that she and her fellow passengers were rescued by a coastal patrol as soon as it was alerted to their presence. Since June 1st almost 500 people have been taken in by Italy (although, under the new law, they now risk prosecution for illegal immigration).

Graver doubts hover over Malta. Ms Tazrar and her fellow-survivors say that two days before their rescue their dinghy was approached by a patrol boat whose crew gave them fuel and life-jackets and even "turned on the motor because we were too weak". Malta accepts that its men found the Eritreans, but says the migrants were in good health and rejected an offer of rescue because they wanted to reach Italy. As a prosecutor in Sicily began investigating the incident, Italy's foreign minister, Franco Frattini, outraged the Maltese government by suggesting that it should limit Malta's territorial waters because it could not patrol them properly.

Continuing illegal immigration across the Mediterranean cries out for a co-ordinated EU response. Carl Bildt, the foreign minister of Sweden, which holds the EU presidency, said new proposals from the European Commission would be discussed by foreign ministers in October. But he added that such a complex problem could not be solved at one meeting.

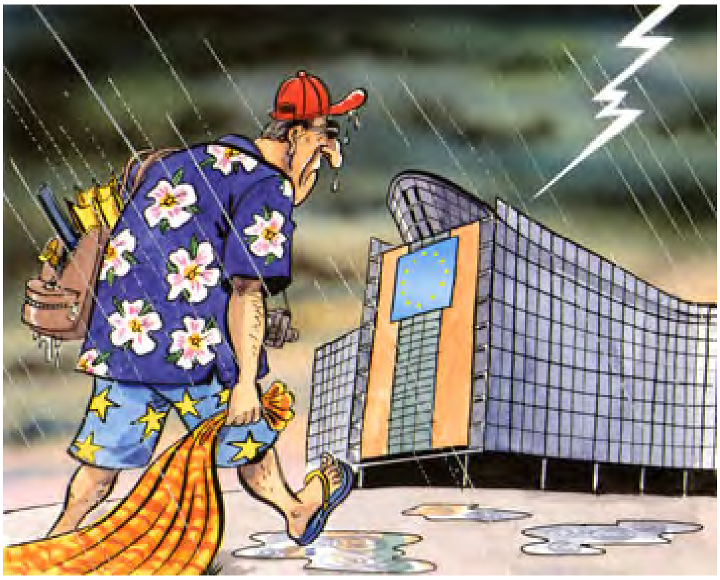
Charlemagne

Summertime blues

Aug 27th 2009
From The Economist print edition

Why the atmosphere in Brussels seems so glum

Illustration by Peter Schrank



THE end of August brings a back-to-school mood to Brussels, where summer holidays are still taken seriously. For a month the glass and concrete canyons of the city's European Quarter are deserted. Then suddenly everyone is back: tanned from summers by villa pools, cottages on the Baltic or the more old-fashioned French beach resorts. The mood of the returning crowd can be a good barometer for the state of the European Union. And this year it is dreadful. In the back-to-school spirit, here is a cribber's guide to the glum atmosphere.

In one way the misery of Euro-types is misplaced. In this economic crisis, many have fretted that the EU has been eclipsed by responses at national level. But what did they expect? National governments are the ones with real money to throw about (the entire EU budget hovers around 1% of overall GDP). In a crisis voters look to national authorities first; this is a legitimate reflection of the way democracy works. Different societies, even within Europe, have different expectations for social solidarity, labour-market flexibility or public spending.

Some of the gloom is also premature. The 27 EU governments have so far broadly stuck to core principles like free trade within the single market. Consider the contrast with the 1990s, when Italy devalued by leaving the European exchange-rate mechanism, suggests André Sapir, an economist at the think-tank Bruegel who was once a senior European Commission adviser. Back then, there were alarming calls from French and German firms for countervailing subsidies so that they could compete with newly cheap Italian goods, he recalls. Similar demands have not yet been heard this time. Even though governments have doled out state aid to car firms, amid ugly rhetoric about keeping production at home, there have been no demands from EU neighbours for countermeasures.

As ever, some worriers in Brussels also focus on the wrong things: institutions and top jobs. As the holidays end, there is much chatter about the Lisbon treaty, a proposed set of changes to the EU's rule book that faces a second referendum in Ireland on October 2nd. Yet in this crisis, whether Europe has acted or not has depended on political will, not treaties. Equally, many are obsessed with the fate of the European Commission president, José Manuel Barroso, who faces a tricky reappointment vote in the European Parliament. Mr Barroso spent much of his summer break beavering away on a manifesto to be sent to members of that pompous assembly (who think him too submissive to national governments). The Barroso manifesto will now be picked apart and members may vote on him in September. Or then again,

they may choose to drag the proceedings out until October, just because they can.

In the real world, away from such institutional navel-gazing, why is a mood of anxiety and concern justified? Because the hardest bit of the economic crisis is about to arrive. This risks being the moment when Europe loses ground “irretrievably”, says a bruising collection of memos to the next European Commission being published by Bruegel on September 1st. Few of Europe’s problems are new, but most have been compounded by the crisis, says Mr Sapir, the collection’s editor. Europe was already anxious about globalisation; now emerging rivals look more powerful than ever. European voters were divided on the merits of liberalisation; politically the EU risks now being blamed for promoting liberalisation over the past 20 years.

The Bruegel memos list many threats to economic growth. Nobody suggests all will come to pass, but the catalogue offers food for thought. Public finances have been damaged, implying higher taxes. The EU is imposing more regulations on financial markets, curbing growth and innovation. Even before the credit crunch, Europe faced a demographic and pension problem; now public debt is soaring just as baby boomers retire and social models creak from higher unemployment. Higher unemployment may trigger hostility to immigrant labour, making it harder for Europe to reform its ungenerous visa and work-permit rules so as to attract foreign talent. And the fact that few firms will be hiring may also undermine faith in more flexible labour markets.

The zombie danger

Governments are being tempted to bully banks into extending credit to businesses that are not profitable without restructuring, and to prevent restructuring if it means big job losses. That risks creating “zombie banks” and “zombie firms” that ought to die but instead lurch along. Misallocating capital may threaten Europe’s single market, because national voters expect state aid to go to the defence of domestic jobs. The risk is most glaring in banking. Banks receiving national aid are likely to feel pressure to concentrate on domestic lending, and it will be hard for EU competition watchdogs to find the evidence to stop them. Any fragmentation of the single market in finance would be especially bad for eastern and central Europe, where catch-up growth in recent years was fuelled by foreign credit. Preserving a single market in finance may also necessitate changing the EU’s economic rules to resolve the tension created by cross-border banks operating under national supervision. Yet, even in the depths of a crisis, the Bruegel memos conclude, there is little appetite for big reforms.

Eurocrats have reasons to be anxious, as their tans fade under leaden Brussels skies. They must stick to the problems that matter, fuss less about institutional arcana, and remember that open borders and free trade are the EU’s greatest strengths. They might also lift their gloom a little if they recalled the old dictum that crisis brings opportunity as well as risks. Clever politicians could use the pressures on public finances and jobs as a reason to push more reforms rather than to stop them.

Economist.com/blogs/charlemagne

Lockerbie fallout

Counting the cost

Aug 27th 2009 | EDINBURGH AND LONDON
From The Economist print edition

The decision to release the Lockerbie bomber will have lasting consequences

PA

HOW a politician as obscure as Kenny MacAskill came to provoke the ire of Britain's most important ally, leave the prime minister in a confounding fix and trigger international speculation about shady diplomatic and commercial deals may be the most remarkable story of the first decade of devolved Scottish power. On August 20th Scotland's justice secretary freed Abdelbaset al-Megrahi, convicted of the worst terrorist atrocity in British history, the 1988 Lockerbie bombing in which 270 people (189 of them Americans) were killed. Mr Megrahi is dying of cancer and Scottish law permits release on compassionate grounds. To Mr MacAskill's surprise, it seems, all hell broke loose.

Britain's ever-less-special relationship with America has taken an undeniable knock: President Barack Obama as well as the head of the FBI, Robert Mueller, and the chairman of the Joint Chiefs of Staff, Admiral Mike Mullen, denounced the release. Even if official American outrage may smack of domestic political posturing, that of the victims' relatives does not.

At home, Gordon Brown has seen his Labour Party's standing in the polls slip further, despite his colleagues' insistence that the decision was made exclusively by Scotland's nationalist administration. Days of prime ministerial silence on the matter (though England's victory against Australia in cricket was worthy of comment) fed an impression that Mr Brown is a man who disappears at moments of crisis.

When he eventually spoke up, on August 25th, he declared himself "repulsed" by the celebrations of Mr Megrahi's return in Tripoli (complete with grateful waving of Scottish flags) but refused to say whether he thought the terrorist's release was justified. The quasi-judicial decision, said Mr Brown, was entirely Mr MacAskill's to make. A cautious venture into criticism the next day by Jack Straw, Britain's justice secretary, did little to remedy the impression that Mr Brown and his team are desperate to stay out of it.

And with reason, perhaps, for suspicions are swirling that Mr Megrahi's release was part of a dark bargain with Muammar Qaddafi, Libya's leader. It was ongoing payment for Libya's conversion from terror-sponsoring rogue state to ally in the war against terrorism, say some. A prisoner-transfer agreement between the two countries ratified earlier this year, which might have provided Mr Megrahi an alternative route home, suggests that London had been willing for some time to oblige the Libyans in the matter.

The release was actually part of a trade deal, claim others, noting that Lord Mandelson, the powerful business secretary, had twice this year met Mr Qaddafi's son, who told Mr Megrahi on his journey home that "in all the trade, oil and gas deals which I have supervised, you were there on the table." Lord Mandelson calls the implication that a terrorist was released for commercial reasons "offensive", but it emerged this week that three British ministers have visited Libya in the past 15 months (as has Prince Andrew, Britain's special representative for trade and investment). Calls for an inquiry into the release, in particular into whether business considerations played a role, are multiplying.

Courting Qaddafi

Britain's business interests in Libya are indeed substantial. British imports alone topped £1 billion ($1.9 billion) in 2008, and both imports and exports rose steeply in the first five months of 2009. It is not just the profits from helping to expand Libyan daily oil production from 1.7m barrels to 3m barrels by 2013 that British firms hope to reap, though Libyan oil is easily accessible and underexplored.

City financial firms, happy to channel Libya's foreign investments now, want to develop financial services in the North African country too. Retailers such as Marks & Spencer, one of the 150 British firms present in Libya, hope to expand there, and defence and construction contracts beckon. But Britain and its companies are not alone in spotting opportunity in Libya: French, Italian and indeed American firms are all courting Mr Qaddafi. Gene Cretz, America's first ambassador to Libya in 36 years, waxed enthusiastic earlier this year about expanding tourism and military ventures. (Scottish companies—especially oil and gas firms in and around Aberdeen, the political heartland of Alex Salmond, Scotland's first minister—have commercial ties to Libya too.)

At an emergency session of the Scottish Parliament on August 24th, Mr MacAskill explained that under Scottish law compassion should be applied "no matter the severity of the provocation or the atrocity perpetrated". He has supporters, including the Catholic and Protestant churches of Scotland and two-thirds of Scottish lawyers, according to one poll. Many Scots resent American criticism of his decision.

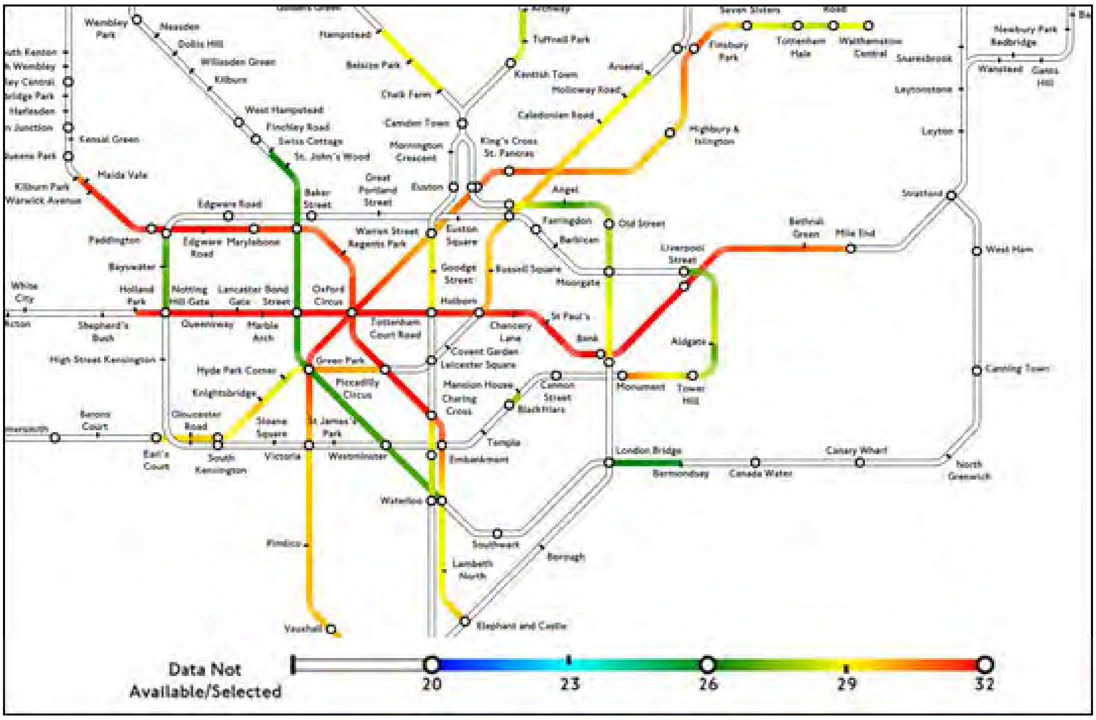
But his opponents (who also have his boss, the cunning and popular Mr Salmond, in their sights), are not letting up. Scotland's Parliament will return to the matter on September 2nd. Annabel Goldie, the Scottish Tory leader, expects it to pass a motion declaring "for the world to hear" that Mr MacAskill's decision "was not taken in the name of the Scottish people". A YouGov poll published on August 27th found that over half of the Scots surveyed did not approve of Mr Megrahi's release, and almost a third think that Mr MacAskill should resign.

London Underground

Subterranean heatsick blues

Aug 27th 2009
From The Economist print edition

Transport for London



A HUNDRED years ago, summer day-trippers were lured on to London Underground's Bakerloo line with the promise that, at a refreshing 15 degrees centigrade, its tunnels were the coolest place in the capital.

Times have changed. Decades of operation have heated the very soil through which the tunnels run and led to the sweaty climate familiar to today's passengers. On August 24th Tube officials published a heat map of the network. The Bakerloo line is baking, with temperatures in its central London tunnels exceeding 32 degrees. The Central Line is above 32 degrees at every station between luxurious Holland Park in the west and Bethnal Green in the East End.

Relief is in sight for some: from 2010 air-conditioned trains will begin to appear on the four sub-surface lines. But the deeper lines are trickier: space is so tight that there is nowhere for waste heat to go, which makes traditional air-conditioning impossible. More creative ideas are being explored. One being tested at Victoria station pumps river water through heat exchangers. It works well, but is only suited to a handful of other places. Other ideas include drilling into the aquifer beneath the city and pumping cool water along the tunnels (a method already used to cool the Royal Festival Hall), or installing chillers in the trains that would freeze blocks of ice while the trains were above ground—which would then keep them frosty on the underground sections.

Tackling internet piracy

The spider and the web

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From The Economist print edition

The latest effort to cut piracy is less dim than its predecessors

SCOTTISH legend has it that Robert the Bruce once took shelter in a cave, where he noticed a spider repeatedly trying, and failing, to build a web. The struggle against online piracy is beginning to feel the same way. On August 25th the department for business announced another effort to tackle a problem that has defeated lawmakers and media companies in several countries. Robert's spider eventually succeeded. Will Britain's government?

The new approach would strengthen a plan laid out earlier this summer. "Digital Britain", a government white paper, set out a rather relaxed timetable for tackling piracy. Ofcom, the telecommunications regulator, was to establish how much file-sharing was going on. Offenders would at first receive letters. If piracy did not drop by 70%, internet-service providers would be required to roll out stronger measures. Nothing much would happen until 2012.

That plan disappointed music executives. Retail music sales are falling so quickly, in part because of file-sharing, that there may not be much of an industry to protect in three years' time. And piracy is almost as tough to measure as it is to fight. So this week the government proposed giving itself the power to decide when ISPs would have to move against file-sharers. Penalties would be stiffened, too, with persistent pirates losing their broadband connections.

This new proposal has provoked outrage among ISPs, civil-liberties groups and even MPs (which suggests how socially acceptable file-sharing has become). If politicians do not wreck it, judges might. In June a French government plan to sever the connections of persistent pirates was struck down by that country's Constitutional Council. A revised measure has run into trouble with opposition politicians.

Yet the approach is at least less wrong-headed than most of the anti-piracy efforts that have been launched since the appearance of Napster in 1999. Attempts to shut down file-sharing websites have merely encouraged the growth of others. Cutting people's broadband connections, or slowing them down, is also much smarter than trying to imprison offenders; suing people has proven expensive, unpopular and ineffective. John Kennedy, who runs the International Federation of the Phonographic Industry, a trade group, reckons file-sharers are much more likely to be deterred by actions taken against their friends than by high-profile prosecutions of people they have never heard of.

Despite their protests, the ISPs have already conceded the principle that they can, and in some circumstances should, police what people do online. They commonly block access to child-pornography websites. And some may conclude that it is in their own interests to restrain file-sharing. Later this year Virgin Media and BSkyB are expected to launch music-subscription services allowing broadband customers to download music legally. That gives them a reason to crack down on the illegal stuff.

Such offerings may also succeed in reducing the demand for pirated music. The best way to wean people off illegal but free downloading is to supply them with legal music that appears to be free. For many young people, an unlimited downloading service bundled with an ISP subscription would fit the bill. A survey released earlier this month by the University of Hertfordshire revealed that 59% of people aged 18 to 24, and 96% of those aged 14 to 17, do not pay their own monthly internet-access bill. They may not worry about the consequences of digital piracy. Their parents, who pay the bills, probably do.

Policing protest

An ever-bigger tent

Aug 27th 2009
From The Economist print edition

The Climate Camp demonstration has become as much about the right to protest as it is about the environment

AP

Greens take on the fuzz

UNDER a tree in St James's Square in London, just over the road from the offices of BP, a group of 150 or so environmentalists are meeting to plan their route to Climate Camp, a week-long green jamboree that began on August 26th. Despite their proximity to the oil giant, a favourite eco-bogeyman, there are just six police officers guarding the square. The slim presence is in sharp contrast to past demonstrations, where protesters have complained of over-policing. "Don't worry," jokes one officer with a conspiratorial wink. "There's hundreds of us in the bushes."

London's Metropolitan Police are under intense scrutiny after their poor stewardship of the demonstrations at the time of the G20 summit in April, when a mainly peaceful crowd and dozens of passers-by were corralled into a pen for hours without food or water. Some officers had removed their badges and donned balaclavas before lashing out with their batons, all on camera. Ian Tomlinson, a newspaper vendor, died after being beaten and shoved to the ground by a policeman.

That episode, and the scathing reports that followed it, have led to a change in tactics. In the run-up to the Climate Camp the Met has shown a friendlier face, holding meetings with organisers, promising fewer stops-and-searches and, perhaps inevitably, setting up a Twitter account. The protest's organisers have changed tactics too, but in the opposite direction: the location of the camp, on Blackheath in south-east London, was revealed by text message at the last minute. Before then, six groups of protesters led their police escorts on a wild-goose chase around London.

Telling the police about a protest in advance has proved a bad idea in the past, says Peter McDonnell, a veteran Climate Camper, who claims that when the group tried to rent land near the Drax power station in 2006 police scuppered the plans by persuading landowners that the campers were dangerous extremists. At Kingsnorth power station last year, officers played deafening music through the night (including "I Fought The Law And The Law Won"). Last month the Big Green Gathering, a vaguely radical eco-festival, was shut down at the last minute, fuelling suspicion that playing ball with the authorities does not pay dividends. It will take time for the police charm offensive to be reciprocated.

In the meantime, exercising the right to protest seems to have become as big a part of the Climate Camp brand as climate change itself. One of the rallying points for this year's camp was Stockwell Tube station, chosen to remind the police of a blunder in 2005 that saw an innocent man shot dead. A big chunk of the Climate Camp website is devoted to advice on legal rights to protest, with links to a site that names police photographers accused of harassing demonstrators. At the camp, legal advisers milled around carrying "bust cards" with tips on what to do if arrested.

Now, other organisations seem to be getting on board. On August 25th an opinion poll was released showing that half the public think the police are too tough on demonstrators. The poll was commissioned by Christian Aid, a charity that normally focuses on third-world poverty. The police filmed some of their members demonstrating outside E.ON, an energy company, in March. "We have a history of taking to the streets occasionally and we were quite surprised at how we were treated," says Christian Aid's Andrew Hogg.

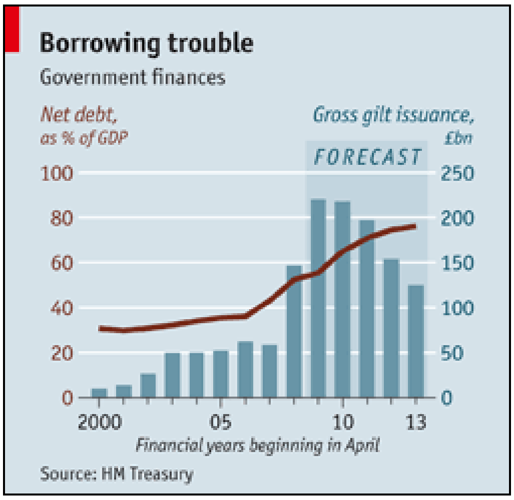
Some within the green movement are reportedly uneasy that the G20 protests are remembered more for the questions they raised about civil liberties than for any statement about the environment. But if it is a mixed blessing for environmentalists, it is worse for the police. A report by HM Inspectorate of Constabulary, commissioned after the G20 episode, warned: "Protesters have a heightened sense of grievance…The art of successfully policing public protest has always been to minimise this transfer of grievance [towards the police]." The Met's latest moves are encouraging, but it may be some time before those grievances are transferred back.

Government borrowing

More where that came from

Aug 27th 2009
From The Economist print edition

Loading on bells and whistles, Britain is managing to sell its debt. So far



WHEN Robert Stheeman became managing director of Britain's Debt Management Office (DMO) in 2003, annual sales of gilts, as government debt securities are known, had doubled to £50 billion in a year. The fiscal devastation wrought more recently by the credit crunch and recession have thrown those once eyebrow-raising figures into the shade. This year even in July, when its coffers are normally full, the Treasury came up £8 billion short. In the first five months of the financial year 2009-10, the DMO has sold £83 billion of gilts, and it needs to offload another £137 billion before the year ends (see chart). The ratio of government debt to national income is set to top 75% by 2013, up from around 50% last year.

Undaunted, Mr Stheeman says he is fortunate to have such an engrossing job. He is "not surprised at all the debt has been sold: it is a very liquid and efficient market". When Standard & Poor's, a credit-rating agency, expressed doubts in May about the outlook for British debt, it "didn't ultimately affect the gilt market", Mr Stheeman says. Yields on ten-year gilts have even fallen slightly since then, and all debt sales have been oversubscribed.

But the sheer torrent of debt has made some innovation necessary. The DMO ordinarily auctions its debt at planned intervals to gilt-edged marketmakers, the 15 banks granted the privilege to buy directly from the DMO and make a market in gilts. In the first week of September £7.3 billion is up for sale in two auctions, one of the largest allotments so far this year.

In the current climate banks' fragile balance-sheets make them reluctant to dedicate their precious capital reserves to holding huge quantities of government debt, especially the more volatile longer-dated paper: in March, for instance, 7% of an £1.75 billion auction went begging. So rather than increase this year's 58 planned auctions, up from eight in 2001, some £37 billion-worth of debt is being sold through "syndicates" and "mini-tenders".

Syndicating sales has several advantages for a hard-pressed debt manager. To start with, it clears up the clutter. At the moment there can be two or three gilts auctions a week; a syndicated sale is usually at least twice the size of a standard auction. And syndicates enlarge the pool of buyers dramatically. Selected banks scour their vast client bases to sell the gilts directly.

Banks charge a fee for this service—about one hundredth of one percent of the face value of the gilt issued. But Sean Taor of Barclays Capital, which participated in the first syndicated sale of indexed-linked gilts in July, reckons taxpayers still save money because the fees are more than made up for by higher prices on the bonds.

Illustration by Claudio Munõz

Mini-tenders are basically auctions at short notice, normally announced about a week in advance. They hark back to the days before 1995, when the Treasury "tapped" the market unannounced, pouncing when it thought it could get the best price. Mini-tenders cater mainly to pension funds, the biggest buyers of inflation-linked and longer-dated gilts, whose demand is unpredictable and lumpy.

So far so good, but Mr Stheeman concedes that bigger challenges lie ahead. Foreign investors such as sovereign-wealth funds and central banks have been happily hoovering up Britain's shorter-term securities and now

own more than one-third of all outstanding gilts. Thanks to the Bank of England's historically low base rate (now 0.5%), banks have been able to borrow cheaply in the short-term money markets and lend to the government at higher interest rates. And under the programme of quantitative easing instituted in March, the central bank has bought £131 billion of gilts, thus helping to keep the price of government debt relatively buoyant.

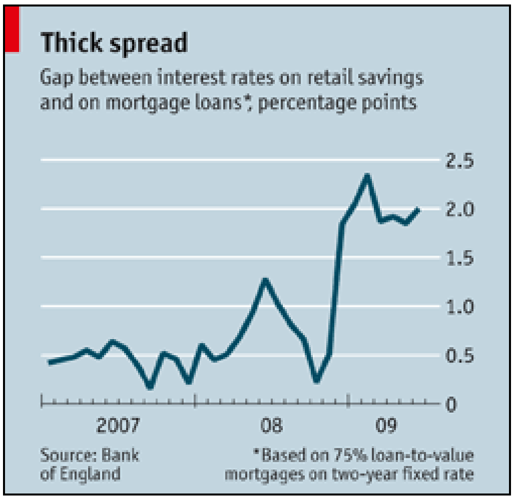
But all this may change. Quantitative easing will end when deflation is a less credible threat. So will low base rates. And as investors' hunger for riskier assets returns the attraction of government paper will fade, making refinancing, like net new borrowing, more expensive. At least the average term to maturity for gilts is 14 years; it is about four on American central-government debt.

Mortgage lenders' margins

After you

Aug 27th 2009
From The Economist print edition

Consumers are paying for lenders' past excesses



WHAT politesse! No mortgage lender, it seems, is prepared to stick its neck out ahead of its rivals and offer new home loans at a reasonable margin above the cost of retail funding. The average spread between the rate banks offer on savings deposits and the rate at which they extend typical mortgage loans hit a peak of 2.4 percentage points in February, and it has hardly dropped since (see chart). And there are precious few loans at that: net new mortgage lending fell in July to £1.6 billion, the lowest increase since October 2000.

Why the shyness? Fair enough that Northern Rock, nationalised last year, hangs back: it has promised not to figure among the three most attractive lenders on comparison websites to avoid taking unfair advantage of its government backing. But in this climate of "reverse competition", as Dominic Lindley of Which?, a consumer body, describes it, only a handful of lenders are prepared to build their mortgage books: HSBC, Barclays and the Co-operative Bank, for example. During the credit bubble they refused to make silly loans of up to 125% of inflated house prices.

Many banks and building societies now have a legacy of mortgages that make no money. New borrowers are being penalised with high rates to compensate. So the mortgage market, whose inefficiency once tempted borrowers to overextend themselves, is again proving a poor allocator of capital.

Borrowers are confused. The Bank of England's base interest rate has been at an all-time low of 0.5% since March. But the tracker rate at which lenders traditionally offer floating-rate mortgages has diverged from it sharply. The average gap is now three percentage points: it was less than one before April 2008. And absurdly, Halifax, for example, part of bailed-out HBOS, lures customers to its tracker mortgage with the baffling suggestion that the base rate could fall still lower.

Retail depositors are confused too. Banks are competing fiercely for their savings as wholesale funding remains elusive. Misleading language has crept in. Some banks are offering savings bonds without spelling out whether they are covered by deposit insurance. "Capital is 100% protected at maturity," says RBS, another rescued bank, advertising its new "Royal Bond". Only the fine print mentions that the investor's capital is only as safe as the bank.

Bagehot

Monsieur health secretary

Aug 27th 2009
From The Economist print edition

The problem of Britain's shallow political talent pool, and how to fix it

Illustration by Steve O'Brien

THE umpires were short-sighted; the pitch was dodgy; and anyway, said some disgruntled Australians, three of the English cricketers who defeated their men in the deciding match of this summer's Test series were born in South Africa. English fans however, weren't too troubled by the moans. Their lot had won.

These days, when the English football team is playing and the camera pans to the coaches' bench, it has a distinctly Mediterranean hue. The manager has the kind of luxuriant hair, media/intellectual square-rimmed glasses, olive skin and self-control not usually associated with English coaches. The team's last bid to reach a big tournament, overseen by a native known as "the wally with a brolly", ended in humiliation. Under the current boss, Fabio Capello, it is romping towards next year's World Cup.

It isn't only in sport. The boards of Britain's big companies routinely look beyond the country's shores, and the firms' own payrolls, for the best people to run them. Bagehot is wondering: if England's football team can be trained by an Italian, why shouldn't the health service be managed by a Frenchman? Or, to put it less facetiously, why does politics, the business of running the country, draw on so much shallower a recruitment pool than most other important enterprises in Britain? It isn't just that foreigners are discounted; so, mostly, is everyone who doesn't happen to be an MP. It is time for leaders to bury their caste loyalty and anachronistic niceties and buy more talent in.

Making up the numbers

Ministerial talent is easy to identify but harder to define. It involves sound administration, policymaking flair, judgment, personal presence, a capacity for teamwork combined with a distinct political identity: a tall order, and few in the current cabinet meet it. The star turn—like a shark suddenly introduced into a pond of carp—is Lord Mandelson (no longer an MP, but a member of the political tribe). Most of the rest are undistinguished and some are worse. The wider ministerial cadre is lumpen.

And the Tories aren't exactly over-endowed either. They have a gifted leader in David Cameron, a decent clutch of senior figures and some sharp middle-rankers (such as Jeremy Hunt and Grant Shapps, culture

and housing spokesmen respectively). But if his party wins the general election, Mr Cameron may have to scrabble around among the new intake of MPs to form a plausible government. The Liberal Democrats have five or six impressive frontbenchers: not a bad ratio, given their overall numbers, but not an abundance either.

The shortage of quality is partly a result of recent history. In the past two decades, many politicians have followed a narrow and callow career path. Slick graduates work for MPs or think-tanks before finding safe seats. (Open primaries to select candidates, pioneered recently by the Tories in Totnes, could help broaden the intake if they become widespread.) After a short parliamentary apprenticeship, Labour high-fliers have been distributed, more or less randomly, across ministries with huge budgets and challenges, then reshuffled before they can acquire much experience. The length of Labour's term in office is also a factor. Most of its small group of able ministers have resigned in disgrace (some more than once), fallen out with the leadership or died. The next cohort have had daunting responsibilities thrust on them before they proved themselves equal to humbler ones.

But the basic cause of the dearth is structural: it is an unhappy function of parliamentary arithmetic. Take the number of MPs who represent the governing party in the House of Commons; subtract those unsuited to government office because of their views, age, disposition or dimness; and there aren't too many left to fill the 100-odd posts at the prime minister's disposal. Despite the misty nostalgia sometimes evinced for the titanic statesmen and oratory of yore, this is not a new problem. Sir John Hoskyns, an adviser to Margaret Thatcher, observed that governments are formed from "a talent pool that could not sustain a single multinational company."

The solution is simple. Prime ministers should reach beyond Westminster for more of their hires. The more technocratic departments could be led by captains of industry or accomplished scientists. Some might even survive handovers of power, like Robert Gates, the defence secretary retained by Barack Obama.

There are two obvious objections. One is empirical: importing outsiders into British politics has not been universally successful. Of the so-called "goats"—the admiral, diplomat, businessman and surgeon recruited by Gordon Brown in 2007 to his "government of all the talents"—all but the admiral have quit. The slow, consensual, decision-making of government can be frustrating for some schooled in more pliant environments such as business; the need for obedient line-toeing can evidently grate. On the other hand Lord Adonis is a fine, well-informed transport secretary. The lesson may be that non-politicians can flourish when they are not smothered by cabinet superiors.

The second objection involves protocol. Since Lord Carrington resigned as foreign secretary in 1982, the top jobs have been reserved for MPs—with the obvious and controversial exception of First Secretary Mandelson—because of the feeling that their holders should be directly accountable to the elected representatives in the Commons, the body from which governments derive their legitimacy. But there is no insuperable reason why ministers drafted into the cabinet should not appear for scrutiny there, as French ministers are quizzed by the National Assembly. They needn't even be ennobled, as interlopers have hitherto been.

It is the sort of reform that a country so shackled by its history would struggle to swallow. But it might mean government ceases to be one of its last bastions of inefficient amateurism.

Economist.com/blogs/bagehot

Charles Taylor on trial

Man of peace, man of war

Aug 27th 2009 | THE HAGUE
From The Economist print edition

The former president of Liberia, and indicted war criminal, takes the stand

AP

IN A small courtroom on the upper floor of the International Criminal Court (ICC) building in The Hague, closed off to the public gallery behind thick glass, Charles Ghankay Taylor has spent the past month giving testimony in his trial for war crimes and crimes against humanity. Indicted on 11 counts in 2003 by the Special Court for Sierra Leone (SCSL), a body that combines national and international judicial procedures, the former president of Liberia has been before the court for the past three years.

The SCSL is borrowing a courtroom from the ICC (a purely international body set up by the UN) because his trial might have been "an impediment to stability and a threat to the peace" had it been held in the Sierra Leonean capital, Freetown. There, eight others have already been convicted and sentenced in the SCSL's especially constructed building for their part in the appalling civil war of 1991-2002.

It is the first time a former African head of state has been tried by an international court. So the Taylor case is a test not only for justice in Africa, but for international justice, too. If the prosecution wins, it would be the first time any former head of state had been convicted of war crimes; Slobodan Milosevic, the former president of Serbia and Yugoslavia, died before the conclusion of his trial in 2006.

The SCSL has already set several legal precedents during its seven years of existence. It has convicted people for the use of child soldiers, for "forced marriages" (as distinct from rape) and for sexual slavery. For the first time, it has categorised these as crimes against humanity. But campaigners believe that if the SCSL convicts a former president for these sorts of crimes too, it would be an even bigger step towards ending impunity. "If Taylor is convicted, there will be an expectation of justice—that leaders will be held to account," the court's outgoing chief prosecutor, Stephen Rapp, has argued.

Despite the court's past successes, however, the prosecution will have to work hard to win this one. For a start, Mr Taylor is being tried not for atrocities that occurred in his homeland, Liberia, but in neighbouring Sierra Leone. Furthermore, no one is alleging he personally carried out any war crimes there either, but rather that he was responsible for arming and abetting the Sierra Leonean rebels, mainly the Revolutionary United Front (RUF), who committed the crimes. The prosecution thus has to prove both that Mr Taylor bears responsibility for the actions of a third party (always a difficult task), and to show that he

was arming the rebels so as to terrorise the Sierra Leonean population and to gain control of the country's diamonds.

That the RUF committed horrendous acts of cruelty amounting to crimes against humanity is not in doubt. It has not even been contested by Mr Taylor's defence team. Several witnesses for the prosecution recounted in court last year instances of the mutilation and torture that became common across Sierra Leone.

The drugged-up fighters of the RUF were particularly notorious for amputations. As one witness recounted: "A small unit of boy soldiers brought another small boy, kicking and screaming. They put his right arm on a log, took a machete, and amputated it at the wrist. They took the left arm again and put it on the same log and sliced it off. He was still screaming and shouting. They took the left leg and put it on the same log and cut it off at the ankle. At last they took the right leg and put it on the same log and cut it off with a machete. They were swinging the boy. They threw him into a toilet pit. I was there. I saw it myself." The rebels were finally defeated by the intervention of the British army in 2000 to save the tottering government.

Also among the 91 witnesses called were 31 "insider" witnesses, men who personally attested to Mr Taylor giving orders to RUF leaders—thus linking him to the crimes. The testimony of these witnesses will probably represent the prosecution's best hope of getting a conviction.

However, Mr Taylor's defence is that although he was indeed talking with the RUF's leaders during the most brutal phase of the civil war, he was doing so in his capacity as an outside mediator. Moreover, he was acting on behalf of, and with the full knowledge of, the United Nations, the countries of the Economic Community of West Africa (ECOWAS) and Western countries too, namely America and Britain, the former colonial power.

The defence, led by a British barrister, Courtenay Griffiths, has been taking the court through scores of cables and memorandums from within the UN to try to show that Mr Taylor was always acting openly and transparently in his dealings with the RUF. Indeed, Mr Taylor claims that he was encouraged to get involved in trying to resolve the civil war, often against his better judgment, precisely because he was the person with the best links to the rebels and thus the person with the most influence over them. But he denies arming or receiving diamonds from them.

In his guise as an international statesman and peace-broker (and therefore, by implication, very different from Mr Milosevic or Saddam Hussein at his trial in Baghdad), the well-spoken and worldly Mr Taylor has been offering full co-operation with the court. He bows to the judges pretty much as low as everybody else. Always a natty dresser, his standards in court never slip. With his well-tailored suits, shiny cufflinks, wise reading-glasses and elegant ties, he looks a thousand miles from a roughhouse warlord.

The trial is being followed closely in Liberia and Sierra Leone. Short summaries of the day's proceedings are broadcast on national and local radio in both countries, with a 30-minute digest on weekends. Mr Taylor still enjoys support in his home country, where his trial remains divisive. Indeed, there are even fears that, if Mr Taylor is convicted, his loyalists could take revenge against those who brought the case to trial in the first place, including members of the present government. In Sierra Leone, by contrast, no one will mourn Mr Taylor's incarceration.

However, there is disquiet there at the trial's length and cost. Sierra Leone is desperately poor. Many of the RUF's surviving victims—often without a leg or an arm—still have no jobs. Reparations have been paid out slowly, in stark contrast to the money and manpower lavished on Mr Taylor's trial.

Yet the SCSL in Freetown, now packing up as it hears the last appeals of convicted RUF leaders, still enjoys broad support; in a poll taken two years ago over 90% of respondents agreed that the court has contributed to "building peace" after the civil war. Indeed, many Sierra Leoneans are proud of the court's work and the precedents that it might set for other African countries. The SCSL might, they argue, be a "hybrid" model for countries still vehemently opposed to the idea of pure international justice—such as Sudan, where the president, Omar al-Bashir, has been indicted for war crimes by the ICC but refuses any co-operation with the court.

Refugee trends

Lost in limbo

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From The Economist print edition

There may be fewer refugees, but their problems are getting harder to solve

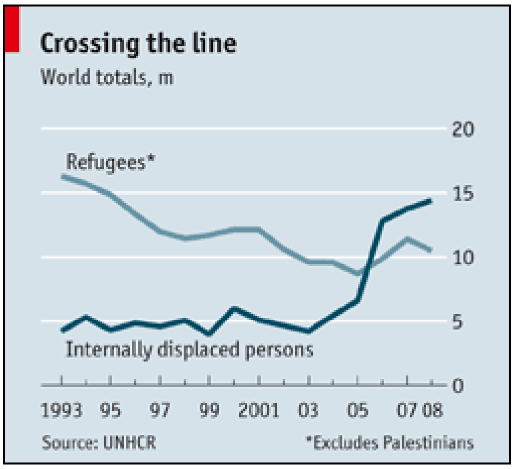
AP

Finding a better provider

THE global stock of refugees, those who escape war or persecution by crossing a border, has steadily shrunk in recent years. The UNHCR, the UN agency with the job of looking after most of them, counted 10.5m around the world last year, well down from a peak of about 16m in the early 1990s. But few are cheering. In part this is because millions more are uprooted but do not count as refugees if they stay within their own countries, such as most of the 2.7m Darfuris made homeless by fighting in western Sudan.

The official figures also ignore 4.2m Palestinians whose families were displaced by war in 1948 after Israel was founded and who, by a quirk of history, are helped by another UN body, UNRWA. Worse, their intractable problems—left for generations by the countries where they sought shelter in wretched camps-cum-shanty towns—seem now to be typical of other refugees' woes. The displaced are washing up more often in places with the least to offer. Poorer countries now host 80% of all refugees, partly because richer ones are keener to keep asylum-seekers at arm's length by paying for refugees to get aid nearer to where they fled from.

That means people are surviving for years under blue tarpaulins in isolated camps: for example, about 120,000 Burundians have been sweltering in Tanzania for decades. Today about a third of refugees pass their days in camps, says the UN; in Africa well over two-thirds. Critics say this amounts to dumping victims of war in warehouses, leaving them more vulnerable than those who assimilate into the wider population. Often the result is criminality, sexual exploitation, joblessness, aid dependency and a greater chance of being dragged into war, say the authors of a recent paper.*



The UN has started paying more attention to what it calls "protracted refugee situations", which it defines as cases where 25,000 or more people of the same nationality have been in exile for at least five years in a given country. The UN estimates that nearly two-thirds of refugees today fall into this category, up from less than half in the early 1990s. Last year it counted 29 such cases in 22 countries. That number is likely to rise as, in central Africa and on the borders of Iraq, huge numbers of refugees have little prospect of going home.

Donors may be willing to keep stumping up cash for those marooned, but finding long-term solutions is much harder. Host governments are wary of seeing aid diverted from locals to refugees, so they often discourage development. Refugees themselves become more reliant on the UN. Researchers for the paper quote Burundian women in a camp in Tanzania who say "UNHCR is a better husband" as it brings the

household more than a Hutu man would. Such dependence makes the problem all the harder to resolve.

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* "A surrogate state? The role of UNHCR in protracted refugee situations". Amy Slaughter and Jeff Crisp. January 2009. UNHCR

America's vigorous new antitrust policy

Return of the trustbusters

Aug 27th 2009 | NEW YORK
From The Economist print edition

Will the Obama administration's actions match its tough talk on antitrust?

Illustration by S. Kambayashi

THE new head of the antitrust division of America's Department of Justice, Christine Varney, sees Thurman Arnold, a predecessor who took office in 1938, as a model. Arnold's appointment created an uproar. His book, "The Folklore of Capitalism", published a year earlier, was widely seen as a satire on the inadequacy of the country's antitrust laws. He was, in his own words, "responsible for the first sustained programme of antitrust enforcement on a nationwide scale." This vigorous approach, in Ms Varney's view, was an important part of "that era's legacy for modern economic policy". In other words, Ms Varney means business.

In recent years "the pendulum swung too far from Thurman Arnold's legacy of vigorous enforcement," Ms Varney argued in May in one of her first speeches after Barack Obama appointed her. Companies are likely to find themselves scrutinised at least as intensively as they were under the administration of Bill Clinton, when many senior antitrust officials in the justice department and Federal Trade Commission (FTC) cut their teeth on a celebrated anti-monopoly lawsuit against Microsoft. (Ms Varney was an adviser to the software giant's chief victim, Netscape.)

Ms Varney's comments before she got her current job have led to widespread speculation that she intends to make Google her version of Microsoft. "I think we're going to continually see a problem, potentially, with Google," she said in a speech last year. "Companies will begin to allege that Google is discriminating, not allowing products to interoperate with other products." The FTC has already begun an investigation into the overlap between the boards of Google and Apple, which doubtless contributed to the resignation earlier this month of Eric Schmidt, Google's boss, from Apple's board.

Yet updating antitrust for the digital age is but one part of Ms Varney's ambitious agenda. She believes that the failure of the administration of George Bush to enforce antitrust effectively contributed directly to the current economic crisis. Whereas Arnold used competition policy to reinvigorate an economy afflicted by central planning, she plans to use it to combat the damage done to the economy by what she sees as excessive deregulation, including, it seems, that of the financial system.

Ms Varney has already thrown out the conclusions of a report published by her predecessor last September on Section 2 of the Sherman Act of 1890, the sacred text of American antitrust policy. The report was widely seen as a last-ditch attempt by the Bush administration to make it harder for its successor to pursue a determined anti-monopoly policy. According to Ms Varney, it "sounded a call of great scepticism regarding the ability of antitrust enforcers—as well as antitrust courts—to distinguish between anticompetitive acts and lawful conduct, and raised the related concern that the failure to make proper distinctions may lead to 'over-deterrence' with regard to potentially pro-competitive conduct."

Whether a listless attitude to antitrust on the part of the Bush administration really contributed to the economy's swoon is debatable, to say the least. Although it did not mount a landmark case akin to the prosecution of Microsoft, there was plenty of activity on Mr Bush's watch. As Ms Varney acknowledges, cartels were pursued enthusiastically, with record convictions, jail terms and fines. The break-up of a vitamins cartel was a notable victory.

Mr Bush's justice department also fired a shot across Google's bow, in effect squelching a mooted tie-up with Yahoo! last year. It was passive at times: it waved through mergers such as Whirlpool's acquisition of a rival maker of white goods, Maytag, and the nautical combination of Carnival Cruises and Princess Cruises, which many experts felt it had reasonable grounds to block.

But the FTC was more energetic. Indeed, relations between the two antitrust enforcers were cool, especially after the justice department refused to support the FTC's effort to persuade the Supreme Court to bar drugs firms from striking deals with makers of generics to stop potential rivals from entering the market. (These deals are likely to be revisited by the Obama administration.) The FTC also adopted a particularly sweeping definition of market power when it resorted to the courts to block the organic retailing merger between Whole Foods Market and Wild Oats, only for the deal to go ahead after the firms made modest concessions.

The courts also overruled the Bush administration's attempt to block the acquisition of PeopleSoft by a rival database firm, Oracle. They are likely to be one of the main constraints on the Obama administration's activist urges, especially if it seems to be pursuing a firm simply because it is big (something Ms Varney says she will not do). The Supreme Court, in particular, has made several decisions in recent years that have narrowed trustbusters' room for manoeuvre.

Even if the courts prove unexpectedly pliant, trustbusters may still fall foul of one of the problems that dogged the prosecution of Microsoft: the difficulty of finding a workable remedy. Fines would have had too little impact; breaking up the firm would have been both drastic and not guaranteed to succeed in ending monopoly abuses. Likewise, if Google were found some day to have abused its commanding position, it is hard to imagine how the cure could be better than the disease.

Addressing abuses in the finance industry may also prove difficult. Even the biggest banks have a global market share of less than 10%, so they do not fit the classic definition of a monopoly. Instead, the worry is that some banks have simply become too big to fail.

The other big challenge facing America's antitrust enforcers is possible disagreement within Mr Obama's cabinet. Ms Varney may want to put big firms' feet to the fire, but there are plenty of voices whispering dire warnings in the president's ear. In particular, they say, given the wretched state of the economy, why risk upsetting the few bits that are growing strongly with gratuitous antitrust cases? Already, the Department of Transportation has ignored Ms Varney's recommendation that it block the proposed integration of Continental Airlines into an international alliance. The trustbusters, it seems, do not enjoy a monopoly over policy on business within the Obama administration.

Economist.com BUSINESS

The Ambani brothers fight over gas

Convoluted and heated

Aug 27th 2009 | NEW DELHI
From The Economist print edition

Hydrocarbons cause a new round in a family feud

Reuters

THE rancorous feud between India's Ambani brothers, Mukesh and Anil, has reached a new low. Earlier this month one of Anil's companies, Reliance Natural Resources, placed advertisements on the front pages of Indian newspapers, accusing the government of siding with his older brother over Mukesh's attempts to raise the price of gas from a big field. The government's actions could lead to "super normal profits" for Mukesh's Reliance Industries, the ads claimed, and a 50% rise in power bills. Reliance Industries bit back, describing Anil's media campaign as "malicious, mischievous, baseless and ill-informed". For the government, the timing could hardly have been worse: this month, India kicked off a two-month marketing campaign for its biggest sale yet of exploration rights for oil and gas, scheduled for October. But the Ambanis' eyes are firmly fixed on September 1st, when the Supreme Court takes up their dispute.

The row centres on the pricing of natural gas from one of India's biggest fields, in the Krishna Godavari basin in the Bay of Bengal. In 2005 the brothers agreed that Reliance Industries, which controls the field, would sell gas from its D-6 lease (short for Dhirubhai-6, after the Ambanis' late father) to Reliance Natural Resources for 17 years at $2.34 per million British thermal units. In 2007 the government stepped in, invoking its right under the lease to vet sales contracts, raising the price to $4.20. In June Bombay's High Court upheld the terms of the original agreement. Reliance Industries, which promptly appealed against the judgment in the Supreme Court, argues that it cannot produce the gas at the lower price because of increased costs. The oil minister, Murli Deora, meanwhile, has said that the gas belongs to neither brother but to India.

That the Ambanis are rowing should come as no surprise. They fell out soon after inheriting India's biggest conglomerate, the Reliance group of companies, when their father died in 2002. Their mother brokered a demerger in 2005, which gave Mukesh control of oil and gas, petrochemicals, refining and manufacturing; Anil took charge of electricity, telecoms and financial services.

The siblings, who agreed not to compete against each other, have butted heads noisily ever since. That has not stopped them amassing ever bigger fortunes, although the global downturn has taken a toll. Moreover, their squabbling has scuttled some opportunities. Last year MTN, a South African mobile-phone operator, pulled out of talks on a multibillion-dollar merger with Anil's Reliance Communications after his big brother's firm said it had the right of first refusal over any sale of the telecoms company.

The latest row is arguably more destructive. The Krishna Godavari basin contains oil as well as gas that could help to reduce energy-starved India's gigantic import bill. By the end of the year, production from D-6 is expected to have doubled the country's gas output. But the brothers' endless duelling threatens its smooth flow. Anil's company says the dispute has delayed by four years a plan to build power plants that could generate more than 30,000 much-needed megawatts, since a third of the fuel would come from D-6. Furthermore, under the terms of the brothers' 2005 agreement, Reliance Natural Resources has the

right of first refusal over 40% of future discoveries, which raises the spectre of further tussles.

Some worry that the government's decision to alter the contract has dented India's appeal to oil firms. It could reassure foreign investors by making the rules on setting gas prices clearer. Reconciling the Ambani brothers will be much harder.

Solar power's bright future in Japan

Land of the rising subsidy

Aug 27th 2009 | KAWASAKI
From The Economist print edition

Japanese makers of solar panels are well placed to endure the present glut

AFP

A new sort of sunroof

UNTIL five years ago Japan made around half of the world's solar cells, thanks to its thirst for native energy and its expertise in the related fields of computer chips and flat screens for televisions. Sharp, which alone has made a quarter of all the solar cells ever produced, dominated the industry. But as solar technology matured and demand grew, new companies emerged, notably in China and Taiwan, eroding Japanese firms' share of the market to around 20%. Sharp slipped to fourth place among manufacturers in 2008, after Q-Cells of Germany, First Solar of America and Suntech of China.

Factories have mushroomed all over the world in recent years, on the assumption that subsidies and loans for solar power would continue to grow, along with the world economy. Chinese manufacturers' share grew sixfold from 2004 to 2008, capturing more than one-third of the global market. This prompted fears that Japan's strength in solar would go the way of computer chips and television screens, in which Japanese firms have lost their dominance over rivals from elsewhere in Asia.

To avoid this fate, Japanese firms have concentrated on improving their technology and adjusting their business models. They have the most sophisticated kit, respected brands and healthy balance-sheets, notes Travis Bradford, president of the Prometheus Institute, a solar advocacy group. All this should spare them the worst amid the present solar glut. The entire industry's sales are expected to be below 7,000 megawatts this year. That is roughly half of its capacity. The economic crisis has led to the cancellation of many big projects, and subsidies for solar power in Germany and Spain are being reduced.

Excess supply has forced the prices of solar panels down by more than 40% this year. In Asia factories that recently cropped up are running at 40% of capacity, with a huge shakeout expected, explains Joe Boyce of Gaia Consulting. But Japanese makers are protected because they can manufacture cells less expensively than European firms and have better technology than Chinese ones. They are also sheltered in their home market, where customers prefer domestic products.

Additionally, Japanese companies are following some American and European rivals into electricity generation. Sharp, for example, is negotiating a deal with Enel, Italy's biggest power company, under which it will build solar panels for use in Enel's solar-power plants. Enel will help to finance the panel factory and Sharp will take a stake in the plants. In March Mitsubishi, a large trading company, acquired 34% of Amper Central Solar, a power plant in Portugal. Showa Shell, an oil distributor and panel-maker, plans to enter the generation business with Saudi Aramco, Saudi Arabia's state-owned oil giant.

Many Japanese solar firms are in fact expanding. The country's four biggest—Sharp, Kyocera, Sanyo and Mitsubishi Electric—are investing billions of dollars to double their production, at least, over the next three years. They expect an increase in demand owing to growing subsidies for renewable energy in America and Japan. The Japanese government reintroduced generous handouts for solar power this year. These

had stopped in 2006, when it had seemed that the market could support itself. Between April and June domestic sales increased by 80% in volume, while sales elsewhere slumped. Goldman Sachs says solar sales in Japan may double next year if the Democratic Party of Japan, an opposition party with green policies, wins a general election on August 30th, which it is expected to do.

At the Motosumiyoshi commuter-train station in Kawasaki, a suburb of Tokyo, sleek solar panels serve as an awning over the platform. On a recent sweltering day, they were producing 33 kilowatts of electricity, equivalent to the consumption of 40 homes. The system supplies 15% of the energy used by the station, and avoids many tons of greenhouse-gas emissions annually. As long as the state's gravy-train keeps running, solar power's future is bright in the land of the rising sun.

GM rethinks the sale of Opel

Looking for reverse

Aug 27th 2009
From The Economist print edition

General Motors switches gear in its row with Germany's government

EVER since General Motors, on the verge of bankruptcy earlier this year, proposed selling Opel/Vauxhall, its unprofitable European arm, it has found itself at odds with the German government. The latter wants to save as many of the 25,000 jobs at Opel's four German factories as possible; the former to minimise the losses of a business in which it will maintain a stake. The dispute has become so heated that GM, which emerged from bankruptcy last month, is now toying with scrapping the sale altogether.

GM's board, exasperated by the onerous conditions being imposed by both politicians and unions, has rejected a proposal to sell over half of Opel to Magna, a Canadian car-parts firm backed by two Russian partners: Sberbank, a state-owned bank and Gaz, another carmaker. The government had offered €4.5 billion ($6.4 billion) to finance this deal, but said it would provide nothing to a rival buyer, RHJ International, a Belgian financial firm, for fear that it would cut more jobs. This blatant grandstanding in the run-up to the country's general election in late September infuriated GM's new directors.

Now Fritz Henderson, GM's boss, is dusting off a plan originally drafted back in March, before GM collapsed, to raise money to revive Opel without selling it. The unions have threatened "spectacular actions" if the Magna deal does not go through soon. Angela Merkel, Germany's chancellor, is also horrified by the prospect of the rescue she backed collapsing before the election, putting thousands of jobs at risk.

Opel/Vauxhall is not competitive in its present state, despite presentable products and a 7% share of the market in western Europe. Its nine vehicle factories and losses of over $1 billion last year compare badly with Ford's five European factories and $1 billion profit. GM's managers believe some jobs and factories must go. Moreover, Ford has declared its European business vital for its expertise in making small cars so much in demand now even in America. GM belatedly sees similar virtue in Opel.

That leads to another problem: the Magna deal involves a rival. Gaz would gain access to Opel's intellectual property and use it to boost its position within Russia, which is vying to overtake Germany as the biggest car market in Europe. Magna and its partners were also insisting on the use of the Chevrolet brand (which has recently been making inroads in Europe) and its network of dealers in Russia.

RHJ, by contrast, was only interested in turning Opel around, just like GM. It offered GM the right to buy back its shares if such a turnaround materialised and it was ready to cash in. Without such a deep-pocketed partner, GM will struggle to raise the €3 billion reckoned necessary to keep Opel going. America's government (which holds 60% of GM's shares) does not want to see its largesse used to save German jobs. GM's board hopes it can persuade Britain, Spain and Poland (where Opel/Vauxhall also has factories) to join the German government in providing loans. Meanwhile Fiat, which dropped out of the bidding for Opel in May, says its offer (involving heavy job losses) is still on the table. Opel can probably stagger on until January before it runs out of cash—leaving plenty more time for argument.

Electronic-book readers multiply

Screen test

Aug 27th 2009 | SAN FRANCISCO
From The Economist print edition

A dust-up over digital dust jackets

AFP

E-books, unbuttoned

SINCE it was unveiled in 2007 Amazon's Kindle has dominated the fledgling market for devices that let users download and read electronic books. Now it faces a formidable challenge. On August 25th Sony unveiled a new, expensive electronic-book reader for the American market that will compete with Amazon's offerings. Both firms are betting that demand for devices dedicated to displaying electronic text will grow explosively. They could be disappointed.

Although Sony has sold e-book readers in America for several years, the Japanese firm allowed Amazon to gain the upper hand with the Kindle, which offers users the novel ability to download books wirelessly from Amazon's online store. Now Sony is trying to reassert its technological supremacy with its new device, dubbed the "Daily Edition", which will be available in December for a hefty $399. This boasts not only a wireless link, but also a touchscreen interface that is much slicker than the Kindle's clunky buttons.

Yet Amazon still retains one big advantage: its vast online book emporium. To level the playing field, Sony has struck a deal with Google that gives users free access to more than a million books scanned by the internet firm. It has also embraced an open electronic standard that lets customers buying e-books from Sony read them on other devices running the software. And it has inked deals with public libraries so users can borrow electronic books that disappear automatically when the loan period expires.

Amazon and Sony are not the only ones pushing digital books. Last month Barnes & Noble, a bookstore chain, unveiled an e-store with over 700,000 titles. Forrester, a research firm, reckons such activity will help boost sales of electronic readers from 3m units this year to 13m by 2013.

Yet there are already signs that consumers may prefer to read e-books on devices that do other things as well. According to some estimates, more people use Apple's iPhone to read digital texts than use the Kindle. And Apple is hard at work developing a multimedia "tablet" that will probably act as an e-book reader too. Gizmos such as these are the likeliest heroes of the next chapter of electronic bookselling.

Charging for newspapers online

Now pay up

Aug 27th 2009
From The Economist print edition

Newspapers have plenty of options for charging online, but no sure bets

IF NEWSPAPER bosses keep their promises, the next few months will see a decisive retreat from free news online. This summer senior figures at big media firms such as News Corporation, Axel Springer Verlag and MediaNews Group have all threatened to start charging. Companies representing more than 700 newspapers have expressed interest in the online-payment platforms being developed by Journalism Online, an American start-up.

It will not be easy. For ten years readers have been enjoying free news online, and the BBC, public-radio stations and commercial television-news outfits such as CNN will continue to supply it. A newspaper that tries to charge will jeopardise online advertising, which often accounts for 10-15% of revenues. But if the obstacles are many so are the potential solutions.

The simplest approach, favoured by a small but growing number of American regional newspapers, is to erect a pay wall around virtually all stories. Print subscribers are often—but not always—allowed to read articles free of charge. Everybody else must pay, often quite a lot. The *Newport Daily News*, a small Rhode Island newspaper, recently began charging $345 per year for online access to stories.

Few opt to pay such sums. Fully 170,000 people buy the *Arkansas Democrat Gazette* every day compared with just 3,500 online subscribers. "It does not justify itself as a revenue stream," admits Walter Hussman, the paper's publisher. In fact, the *Democrat Gazette*'s pay wall is more of a revenue dam, intended to stop the flow of readers (and, thus, advertisers) away from print. Since 2002, when the paper began charging online, its average daily circulation has dropped by less than 1% a year—rather better than most.

The newspapers that have built successful pay walls tend to hold virtual monopolies over news in their region. Grupo Reforma, a Mexican newspaper outfit that has attracted some 107,000 web subscribers, is an important exception. It serves them not just news but exclusive job advertisements. Along with a weekly society magazine distributed only to subscribers to the printed version of *Reforma* in Mexico City, that helps the title cultivate an air of exclusivity.

Some publications have tried charging for a digital simulacrum of their print editions, with a more familiar design and layout than their websites, which can often be downloaded as a single package. The *Süddeutsche Zeitung* sells an "e-paper", as does the *New York Times*, in the form of the elegant Times Reader. The latter is also one of the many papers that have created applications for Apple's iPhone, Amazon's Kindle and other mobile devices. Many publishers hope that people will come to accept the idea of paying for mobile news, as they pay for text messages. But the line between computers and mobile devices is blurring as new gadgets of varying sizes appear (see article).

Another option is to charge for just some content. In Britain, where fierce competition between national dailies probably rules out all-encompassing pay walls, newspapers nonetheless charge for crossword tips and participation in fantasy sport leagues. German newspapers commonly charge for articles from the archives, which may not be all that old. The theory is that a person who tracks down an out-of-date article or a crossword clue probably cares enough to pay for it.

The greatest exponent of the niche approach, with more than 1m online subscribers, is the *Wall Street Journal*. Roughly half of its articles—generally financial news and insiderish business reports—sit behind a pay wall, although they are free if accessed via Google News.

This approach is much harder to emulate than it may appear. Between 2005 and 2007 the *New York Times* charged a subscription fee to read the paper's most popular columnists online. It ended the experiment because it seemed to be cutting traffic to the site and harming advertising revenue. The *Los Angeles Times* dropped an attempt to charge for arts coverage for the same reason. A newspaper that

wants to follow the *Journal* must produce copy that is both narrow in its appeal and useful.

The *Financial Times* (part-owner of *The Economist*) keeps readers on a meter, by charging those who look at more than ten articles a month online. This model has one big advantage: it is easier to adjust than a pay wall. A newspaper might, for example, respond to a buoyant market for display advertising by allowing people to read more free articles each month.

Lurking in the background are methods that have been discussed more than tried. The first is to charge readers for individual articles. This works in music. Experiments with “micropayments” have been held back by the fact that stories are much more perishable than songs, and by transaction costs. But small payments are becoming cheaper and easier to process. Both the *Journal* and the FT have hinted that they will test micropayment systems.

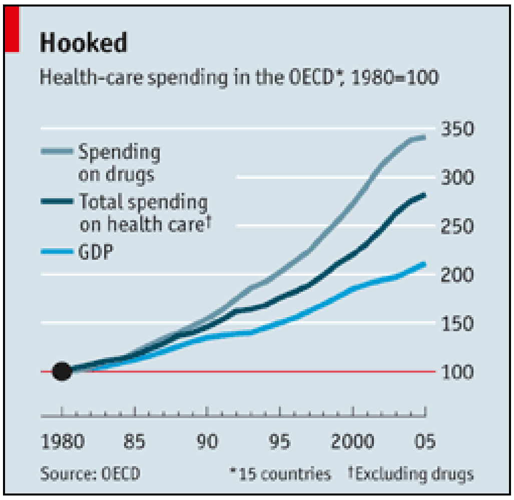
A final approach is to harry online aggregators such as Google News, which indexes stories, for a share of their advertising revenues. That would at least bring some emotional satisfaction.

Developing new drugs

Reds under our meds

Aug 27th 2009 | NEW YORK
From The Economist print edition

Could health-care reform in America stop innovation in pharmaceuticals?



THE number of Americans denouncing their president's plans for health-care reform as unvarnished socialism would presumably rise dramatically if Barack Obama decided to institute price controls for drugs. Yet a study published this week in *Health Affairs*, an industry journal, suggests he should do exactly that.

Governments around the world are struggling to cope with the rising cost of health care, and of drugs in particular (see chart). Many rich countries have resorted to price controls, and some on the American left advocate them noisily. But drug firms maintain that America, where they are free to price patented pills largely as they please, is the engine of global pharmaceutical innovation, while price-controlling Europeans are free riders. That, says PhRMA, the industry's lobby based in Washington, DC, is because price regulations seen in other rich countries "chill innovation, impede patients' access to the newest cutting-edge medicines, and trigger innovators to relocate to countries with more progressive public policy."

The new study, written by Donald Light, a visiting professor at Stanford University, claims that European drug firms are more innovative than American ones, in spite of price controls. That flies in the face of an influential paper published in the same journal in 2006, which examined the geographic origins of drugs registered between 1982 and 2003 and concluded that favourable public policies had helped propel America to the top of the list. PhRMA has rushed to denounce Mr Light's study, insisting it gives a "distorted picture" and understates the impact of "home-grown innovation". (One of the authors of the earlier paper, Henry Grabowski of Duke University, has also taken issue with Mr Light's findings.)

The tiff exposes two fallacies that come from looking at a globalised industry through national spectacles. Both sides attribute new drugs to a specific country of origin (based on the location of the headquarters of the firm that first launches them). But Patricia Danzon of the Wharton Business School argues that this makes little sense when most big drug firms have laboratories in several countries and often acquire drugs under development from biotechnology firms located elsewhere. By the same token, firms develop drugs for the global market, observes Alan Garber of Stanford, not just for the local one. So the imposition of price caps in a given country will not necessarily quash innovation there, thanks to the lure of exports.

The exception to this rule, of course, is the United States, which alone accounts for over 40% of global sales. So what would happen if America's Congress imposes price regulations? If the cuts are swingeing, then the prize for inventors everywhere will be reduced. But short of such a radical scenario, pricing reform would not kill off innovation, according to Sanford Bernstein, a financial-research firm. It has analysed the likely impact of a cut of 20% in the prices Medicare, the government health scheme for the elderly, pays for its drugs. It concluded that the earnings per share of big pharmaceutical firms would drop by 3-8%.

There is even reason to think that pricing reforms may boost innovation. Britain and Germany are pioneering comparative reviews of drugs' effectiveness and cost-benefit analyses aimed at reimbursing firms for new drugs based on how well they perform. Some firms have embraced this idea: Janssen-Cilag (owned by Johnson & Johnson, an American conglomerate) persuaded Britain's health service to accept Velcade, its expensive cancer drug, by offering a money-back guarantee if it did not work as well as promised.

The American pharmaceutical lobby is violently opposed to making such an approach compulsory. Some suspect that its opposition stems from the fear that many expensive and profitable pills would be found to

be of dubious value. But as Ms Danzon points out, “Comparative-effectiveness reviews are an indirect form of price control—but one that is consistent with encouraging innovation.”

Face value

Missionary man

Aug 27th 2009
From The Economist print edition

David Neeleman thinks Brazil is just as good a place to do business as America

AFP

WHEN David Neeleman returned to Brazil as a 19-year old Mormon missionary, he spent two years among shoeless children and their toothless parents in the country's poor north-east. The experience turned him into "kind of an anarchist", he says. His band of missionaries rented a house in Recife that was next to a slum and started trying to convert the people who lived there. Mr Neeleman reckons that he made about 100 converts—a number he does not consider particularly impressive.

This was a different country from the Brazil that Mr Neeleman knew from his childhood. He was born in São Paulo to parents who were also Mormon missionaries. He spent several years living the life of a well-to-do Brazilian child in the country's south-east, which typically revolves around beaches, barbecues and private sports clubs.

Many Brazilians lament the contrast between these two worlds. But it is less marked now than it was in Mr Neeleman's childhood thanks to a recent spell of growth that has favoured the poor in particular. In that he sees an opportunity. Brazil's middle class is swelling: at the last count there were 97m people in marketing bracket "C", which means they are rich enough to contemplate getting on an aeroplane. Mr Neeleman, in turn, has some experience getting people onto planes, having founded JetBlue, an American airline that aims to combine low cost with relatively lavish service.

Mr Neeleman insists that he was "pretty much done with the airline business" last year, when he resigned as chairman of JetBlue, which he had taken from an idea to an IPO and is now valued at $1.6 billion. The previous year he had ceased to be chief executive after blunders had left angry passengers stranded during a spell of bad weather. Mr Neeleman says he was "humiliated and mortified" by it all. That episode followed an earlier embarrassment, when JetBlue had handed over the names of its customers to a military contractor looking for terrorists.

When he tried to put all this behind him by returning to Brazil, he found air fares that were 70% higher than in America in a country that is considerably poorer, a market in which the two biggest carriers, TAM and Gol, had a combined share of 85% and large areas of the country that were scantily served by airlines. All this tempted him back into a business that in the words of Sir Richard Branson, British founder

of the Virgin family of carriers, excels at turning billionaires into millionaires.

Making air travel more accessible in a country the size of the continental United States, where infrastructure is rickety and many families have been scattered by internal migration, is a noble aim—and potentially a lucrative one. “It sometimes feels like this country is built for 20m people,” says Mr Neeleman, when in fact it has close to 190m souls. His Brazilian airline Azul (which means blue) was born in December last year. On some routes, its tickets are cheaper than a bus fare for the same journey.

In nine months the company has gone from having no employees to a staff of 1,300. It has 12 planes made by Embraer, a local firm, which pleases the Brazilian government; it will have 14 by the end of the year. Azul is already the country’s third-biggest carrier, although it is still a long way behind the big two.

The speed with which Mr Neeleman has got his new company airborne is perhaps surprising given Brazil’s reputation as a bureaucratic place where life is hard for entrepreneurs. In its “Doing Business” survey, the World Bank ranks Brazil 121 places lower than America on ease of starting a business. According to Mr Neeleman, lots of things that companies need, from capital to telephone lines and computing expertise, are indeed more expensive in Brazil than in America. Labour is not much cheaper when taxes are taken into account. The corporate tax rate is lower than in America but Azul needs an army of accountants to pay it correctly. Customers have less access to credit than American ones do, so Azul has had to perform some of the services of a bank, offering interest-free credit for ten months, and so on.

But the feebler competition and growing market compensate for this. “America has an excess of everything: cars, credit,” says Mr Neeleman. “Down here people are getting their first car, first credit card, owning their first home. It feels like the beginning of the cycle.”

Mr Neeleman is also lucky that Brazil’s aviation infrastructure may soon improve. The country has lots of airports, which were built enthusiastically by the military regime that ruled the country from 1964 to 1985. But many of them are in disrepair and the state company in charge of them, Infraero, has been poorly run. A low point came in 2007 when a TAM plane skidded off the end of a runway in São Paulo, killing 199 people. But the government has put new managers in place at Infraero and plans to renovate Brazil’s airports before the country hosts the World Cup in 2014.

The gospel of prosperity

Mr Neeleman and his wife recently returned to the church where he was a missionary in Recife. One generation later, he says, there was a car park full of new vehicles, and a beautiful chapel. When he gets a break from his nine children and his corporate offspring, Mr Neeleman devotes a lot of time to the Mormon church’s charity work, which aims to foster economic development as well as the spiritual sort. But it will probably be his role as an evangelist of commerce that brings the most benefit to Brazil.

On a recent Monday at São Paulo’s international airport, a group of some 30 young American Mormons in dark suits with lapel badges bearing their names were waiting to clear immigration and begin proselytising. No doubt many of them were already looking forward to returning home. But perhaps a few will form an enduring attachment to a country that resembles America in so many ways, and will use their experience of converting the natives to start a business in Brazil too.

Reshaping Cisco

The world according to Chambers

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From The Economist print edition

Cisco's chairman and chief executive is stretching his company in all directions. Can it hold together?

Cisco

JOHN CHAMBERS no longer travels much. That is not for want of energy, of which the boss of Cisco Systems has plenty. It is because he is a proud and enthusiastic user of his own company's technology. Since 2006 Cisco has been selling a system called TelePresence (pictured above, with Mr Chambers holding forth), which turns awkward videoconferences into pretty lifelike encounters. He pulls all-nighters to talk to customers and colleagues in Europe and Asia.

Meet Mr Chambers in the flesh, and the small talk lasts for about five seconds, until he asks: "What do you expect from this conversation?" If he seems to have no time to waste, no wonder. He does not only have a huge company to run, but he is also reshaping it.

During the dotcom boom Cisco was hailed as the leading light of the "new economy", being the supplier of most of the gear guiding data through the internet. In early 2000, when its market capitalisation peaked at nearly $550 billion, it was briefly the world's most valuable company. But a year later, like other technology giants, it was hit by what Mr Chambers calls the "hundred-year flood". Cisco did not drown, but much of its stockmarket value was swept away (see chart 1). Since then it has been regarded for the most part as a lowly network plumber: necessary, but dull.

The company has not been immune from the world's latest bout of economic troubles. In the quarter that ended in July its profit, $1.1 billion, was 45% lower than a year before. But Cisco, which had revenues of $36 billion in its latest financial year and employs more than 66,000 people, has been making headlines again for different reasons as well. "Cisco plans big push into server market," read one in January. Another, in March, declared: "Cisco pushes further into consumer territory." More recently a third said: "Cisco: smart grid will eclipse the size of internet."

In other words, the plumber is branching out. As well as making these unexpected forays away from selling network gear, Cisco is exploring other sidelines. From "virtual health care" to "cloud computing" and "safety and security" to "routers in space", the company is tackling more than 30 "market adjacencies", as new areas of growth are called in the corporate argot. Mr Chambers expects to keep adding more. He hopes that at least half will be

successful and generate 25% of Cisco's revenues within five to ten years.

Some on Wall Street worry that Mr Chambers, who has been Cisco's boss for 14 years, is stretching his company so thinly that it could be ripped apart. Mr Chambers, not surprisingly, sees the expansion, seemingly in all directions at once, differently: as a bold attempt to achieve two things. He wants Cisco to become the main supplier of the essential elements of an increasingly connected economy, and to be a shining corporate example of how to use them. It should provide not only the tools of the company of the future, but also its organisational model.

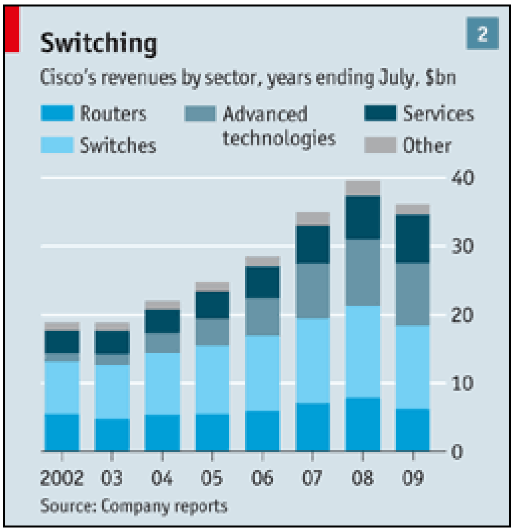
Even at the height of the dotcom boom, people had only the vaguest grasp of Cisco's business. Its physical incarnation was easy to picture: hardware such as routers and switches, which direct traffic through a network. But Cisco also made a lot of money from services, for instance by helping customers to maintain those networks. It was always a software firm as well, providing the dominating operating system for internet-type corporate networks. This mixture goes a long way towards Cisco's dominance in the networking market and its high gross margins (64% in the most recent quarter): firms have continued buying Cisco gear not least because it works best with IOS (originally Internetwork Operating System), as the software is called.

Cisco also has a record of being willing to reorganise itself. It was an early outsourcer of manufacturing, for instance. Many of its products are never touched by a Cisco employee, but built by a contract manufacturer, tested remotely and then shipped directly to the customer. Cisco was also one of the first big IT companies to let others do much of its R&D. To plug holes in its product portfolio or react to market demand, it bought dozens of other networking firms and perfected the difficult process of integrating them.

The once-a-century flood, however, did not just wash away nearly a third of Cisco's revenues in a single quarter. It also laid bare the limits of the firm's business model. Its core markets, routing and switching, had matured: they would never again boast the annual average growth rates of more than 50% that drove Cisco's revenues from $1.2 billion in 1994 to $18.9 billion in 2002. The firm was also running up against the law of large numbers, which makes it more difficult for big companies to grow rapidly. And however efficient the supply chain, networking gear is bound to become a commodity eventually.

The obvious remedy was to move quickly into new businesses promising more value. Some companies would have begun gently, with one or two; Cisco went for half a dozen, including optical networks, wireless equipment and internet telephony. Today these "advanced technologies", as they are called internally, bring in 25% of Cisco's revenues (see chart 2). This branching out has been institutionalised and expanded. Hence the 30 market adjacencies.

These are best seen as a portfolio of business bets, much like those of diversified companies such as 3M and General Electric (GE). Yet Mr Chambers is keen to point out how Cisco's collection is different. "GE's is comprised of individual pieces. The light-bulb group doesn't tie into the jet-engine group," he explains. "Our pieces are all tied to the network."



This gives Cisco a huge and growing field to play on. The world is getting more and more connected. Sensors and chips, for instance, are being embedded in everything from cars to appliances, pipelines and even livestock. But there is a clear danger with such a grand vision, of rushing into anything and everything. So Cisco feeds putative projects through a series of filters. Is this something customers want Cisco to do? Is the opportunity big enough and does it create demand for Cisco's hardware? Can Cisco offer something that is really different and become number one or two in this market?

Just as important is the question of whether a new project fits in with the way Cisco sees the network, be it within a company or at home: as a platform for all kinds of applications. "Their long-term strategy is essentially to become the Microsoft of the internet," says Richard Windsor, an analyst at Nomura International, an investment bank. Just like the vendor of Windows, Cisco has a family of interlinked operating systems and platforms. In much the same way as IOS, these are supposed to drive demand for Cisco gear and make the firm a dominant force in new markets. Many of Cisco's moves are thus about building beachheads for platforms, says James Staten of Forrester Research, a firm of consultants.

Another way of looking at Cisco's stretching exercises is what Jeff Evenson, an analyst at Bernstein Research, calls "application-specific networking". The firm is betting that it can make a lot of money by combining networking gear with software and hardware specific to an industry, for instance electric utilities. "Cisco wants to offer similar services to IBM and HP—but with fewer people," says Mr Evenson.

Watch this space

The prime example of all this is video, which Cisco believes will in the long run account for a lot of communication among both businesses and individuals. The company estimates that the amount of internet traffic accounted for by video communication will increase tenfold by 2013, twice as fast as traffic overall. This deluge of data can only be managed with more and bigger routers and switches, such as Cisco's Nexus 7000, which can handle 15 trillion bits, the equivalent of 1,350 feature-length films, every second.

To get an even bigger slice of the video pie, Cisco developed TelePresence, the first unit of which was sold in December 2006. It combines big, high-definition screens, spatially sensitive microphones, custom video-processing technology and networking equipment. What is more, setting up a TelePresence meeting is as easy as making a telephone call. Facilitators are no longer needed.

Cisco intends to push TelePresence into the home. This is the main reason why it bought Scientific Atlanta, a maker of set-top boxes, for $6.9 billion and, more recently, spent $590m on Pure Digital Technologies, maker of Flip, a range of hand-held camcorders. TelePresence at home will soon be combined with another project: sports and entertainment. The firm intends to turn stadiums into multimedia temples—and eventually to pump the match-day experience into living-rooms. Mr Chambers hopes one day to watch North Carolina against Duke, archrivals in American college basketball, with his sister while they are linked by TelePresence.

Such scenarios will be possible only because all Cisco's video products are based on the same platform, called Medianet, says Tony Bates, one of the executives overseeing the firm's video strategy. Thanks to Medianet, for instance, the network can reformat a video so that pictures taken by a small camera can be seen in high definition on a computer or television screen. This, says Mr Bates, will happen in real time. "You could take your Flip camera and stream that directly to a friend's TV."

Cisco's other market adjacencies can be analysed in the same way. Another big one is consumer electronics, perhaps the most surprising new territory. Here too, Cisco can add a lot of value, says Ned Hooper, who heads the firm's consumer group. More and more devices come with a connection to the internet, but their content—pictures, videos, music—is mostly still tied to one device, he argues. Cisco's new digital stereo system, for instance, allows music to move wirelessly around the home. Again, Cisco's consumer products have a common platform.

In the case of servers, souped-up computers that dish up data, the market shift Cisco intends to ride is virtualisation. In essence this means that the servers in a data centre are turned into a pool of computing power to be tapped into as needed rather than being used individually. Virtualisation creates a lot of complexity, to which Cisco has found an answer, says Robert Lloyd, who heads the group that has developed what Cisco calls the "unified computing system". Its parts—servers, storage disks, memory—are held together and managed by a powerful switch running Nx-OS, one of Cisco's operating systems.

Finally, with its "smart grid" initiative, Cisco wants to repeat for electrical power grids what it has done for corporate networks: unify the ways in which the parts of the grid talk to each other and then add intelligence. Home appliances, meters, transformers and generators could all share data and work together to make the power grid more efficient, for example by lowering the peak load.

For all the energy Cisco is devoting to seeking new markets, the changes it is making to its institutional structure are equally important. Whether they turn out well or badly, they are likely to be instructive to other companies too.

Cisco has already altered its organisational structure once, after the dotcom bubble burst. The firm had been comprised of three lines of businesses: gear for telecom operators, large enterprises and smaller businesses. This had become wasteful: the lines of business duplicated a lot of work, for instance by developing similar routers. Having to cut costs, Cisco centralised the functions of each line. Employees were no longer mainly organised around customer segments but on functional principles: engineering, manufacturing, marketing and so forth.

A functional structure is more efficient, but it also has big drawbacks. It often leads organisations to be too cost-conscious, to create standardised products and to ignore the needs of different types of customer. Co-operation between functions can be limited. To overcome these flaws, explains Jay Galbraith, a noted management consultant, most big companies move back and forth between a decentralised organisation along lines of business and a centralised functional structure.

The plumber's new pipework

Cisco took a different tack. Instead of going back to a structure based on lines of business, it has developed an elaborate system of committees made up of managers from different functions. The job of most of these groups is to tackle new markets. "Councils" are in charge of markets that could reach $10 billion. For "boards" the number is $1 billion. Both are supported by "working groups", which are created as needed. There are about 50 boards and councils, with some 750 members. Cisco has given up counting the working groups, because they come and go so quickly.

Such attempts to combine a functional structure with cross-functional groups, called a "matrix", have mostly failed, says Mr Galbraith, who recently published a book on matrix organisations. They often produce gridlock: managers representing the functions and those having an eye on markets cannot agree. But Cisco seems to have avoided such blockages.

For one, the firm developed what Mr Galbraith calls a "culture of collaboration" from the top down. Mr Chambers cultivates a co-operative management style. Some councils do without a formal leader and function more like a sports team. Many managers have leading roles both in a function and on a council or board, which fosters co-operation. How well managers do in teams determines 30% of their bonuses. There have been casualties: whereas those who work well with others have been promoted, lone fighters have been pushed out. As a result, a fifth of Cisco's leadership has left the company.

Second, Cisco has given itself a kind of constitution. There are "replicable processes"—jargon for rules covering how the groups are set up, how their work is evaluated and how decisions are taken. There is also a "common language" in which groups must describe their work. Each has to come up with a statement that includes a five-year vision, a two-year strategy and a ten-point execution plan. This not only imposes discipline but also makes decisions transparent.

Third, the firm—to borrow a choice Silicon Valley expression—eats a lot of its own dog food: digital tools that allow cheap and efficient communication. These include wikis, social networking and web-based collaboration services, of course. But the most important tool is TelePresence, so that nuances such as body language and tone of voice, essential ingredients of face-to-face meetings, are no longer lost. The number of TelePresence meetings at Cisco averages 5,500 a week. This has also helped the firm to cut its annual travel budget by $290m, or more than half.

"It has taken us seven years, but now it is a machine," says Mr Chambers. What could still go wrong? "Lots of things." One of his main worries is that Cisco does not have sufficiently replicable processes in place to keep things on track. What about the seemingly clear risk that the company could spread itself too thinly? "My gut-feel is actually that I'm not spreading us thin enough," Mr Chambers says. If people have "aggressive stretch goals", he believes, they will think more broadly.

Picture Partnership

Outsiders, however, do fret that Cisco may stretch itself too far. Its internal workings could get too complex, argues Mr Galbraith, and the firm could suffer from matrix migraine after all. The structure, he says, is still a work in progress; Cisco still has to work out, for instance, how best to assemble and disassemble teams. What is more, the set-up may make the company move too far from its origins as a network plumber. A case in point, some say, is Cisco's line of consumer products, whose creators clearly were engineers, not designers. To make them successful, the firm may have to create a separate line of business.

Even if the system works as billed, it has been costly in one important respect: the loss of many talented people. And with all those groups and endless meetings, burnout is still a real danger, points out Geoffrey Moore of TCG Advisors, a management consultancy that has worked with Cisco. Senior executives are members of three to five groups on average and some of many more. This is on top of the regular job and means TelePresence meetings at all hours.

Why then has Cisco's boss taken his company into unchartered organisational waters? For one, because he believes he has no choice. It is not just that Cisco needs a structure that can help the firm to react quickly to new opportunities. The matrix also makes it much easier to come up with entire solutions rather than stand-alone products. This is what many customers, particularly governments, now demand. And the structure helps Cisco to become a globally integrated company by making it easier for executives from all around the world to weigh in.

And send to grandma's TV

At the same time, implementing such an unusual structure is a huge opportunity. It allows the firm to be a showcase for its own products. Some think it could even become a model for the corporation of the future. Rosabeth Moss Kanter, a professor at Harvard Business School, regards Cisco as an example of a "supercorp", a coinage that is also the title of her new book. It has avoided the fate of many other companies as they grow: becoming a lumbering and bloated giant. Tom Malone, a professor at the MIT Sloan School of Management, sees Cisco as a pioneer for a larger trend. Traditionally, he says, management was about "command and control". Now, as technology makes communication much cheaper, bosses should move to a more flexible view, best described as "co-ordinate and cultivate".

Given its track record with other institutional innovations such as acquisitions and outsourcing, Cisco has a good chance of coming to exemplify a new world of "co-ordinate and cultivate" in the same way that GE stood for "command and control". If this does not come to pass, it will not have been for want of ambition. After all, Mr Chambers's goal, as he recently put it, is nothing less than for Cisco to become "the best company in the world".

Ben Bernanke's reappointment

The very model of a modern central banker

Aug 27th 2009 | WASHINGTON, DC
From The Economist print edition

An academic background stood the chairman of the Federal Reserve in good stead during his first term. Political skills may be more important in his second

AP

AS THE financial crisis gathered force in August 2007, Jim Cramer, a hyperbolic market commentator on cable television, hurled the worst epithet he could muster at the chairman of the Federal Reserve: "Bernanke is being an academic. It is no time to be an academic!" By August 25th this year, when Barack Obama nominated Ben Bernanke to a second, four-year term, what had once been an epithet had become a source of strength. "As an expert on the causes of the Great Depression, I'm sure Ben never imagined that he would be part of a team responsible for preventing another," Mr Obama said. "But because of his background, his temperament, his courage, and his creativity, that's exactly what he has helped to achieve."

It is too soon to declare that the threat of depression has passed, but not to conclude that Mr Bernanke's academic background, which seemed a liability at the start of his tenure, has proved his greatest asset. His so far successful handling of the crisis reflects not just what he learned about the Depression, but what other economists have learned from studying crises—as demonstrated by the similar strategies other central banks have taken. A political neophyte compared with his predecessor, Alan Greenspan, Mr Bernanke made that a strength when he pleaded with politicians to bail out the system. "I'm a college professor," he told Congress as it debated the $700 billion Troubled Asset Relief Programme. "I never worked on Wall Street… My interest is solely for the strength and the recovery of the US economy."

Difficult as Mr Bernanke's first term was, his next will be more politically treacherous. The recovery now under way will be feeble: deflation will remain a bigger threat than inflation for at least a year. Yet early signs of growth will generate pressure to tighten monetary policy which Mr Bernanke must beat back without seeming soft on inflation.

Once the recovery is entrenched and unemployment is falling, he will have to raise interest rates and shrink the Fed's balance-sheet, inviting attack from Congress and perhaps Mr Obama. He will also have to create a new monetary regime to replace the single-minded focus on low inflation, says David Blanchflower, who recently quit the Bank of England's monetary policy committee. The Fed may have to intervene in markets more to prevent new

bubbles. But that, like tightening monetary policy, is unpopular and the Fed is already in bad odour with the public (see chart).

Still, Mr Bernanke is probably up to these challenges. Mr Obama has strengthened him immensely, by nominating the 55-year-old Republican long before his term expires rather than leaving him dangling or replacing him with a Democrat. More important, Mr Bernanke has shown he can adapt academic theory to the political reality in which the Fed operates.

This was not a foregone conclusion. Mr Bernanke was appointed to the Fed in 2006 largely on his academic credentials. As a professor at Princeton University, then a Fed governor under Mr Greenspan and briefly an adviser to George Bush, he helped build the edifice of macroeconomic orthodoxy that has proven so badly flawed. He argued that central banks performed best by concentrating solely on inflation, preferably with a target. To an even greater degree than Mr Greenspan, he was sure that using monetary policy to try to stop asset-price bubbles would do more harm than good.

To a great extent this reflected his and most macroeconomists' assumption that markets were, most of the time, rational and efficient. In September 2005, he declared: "Recent house price increases are attributable mainly to economic fundamentals." Jeremy Grantham, a fund manager, has said Mr Bernanke's faith in efficient markets was so strong that he could not see a once-in-a-century bubble in home prices because such a bubble wasn't supposed to be possible. Mr Greenspan is blamed for planting the seeds of the crisis by holding interest rates low after the 2001 recession, but Mr Bernanke provided ample intellectual cover for the strategy. As late as August 7th 2007, days before the crisis erupted, the Fed said it was more worried about inflation than about a weakening economy.

But once the gravity of the crisis became clear, Mr Bernanke knew what he had to do. Financial institutions, unsure who was fatally exposed to toxic securities, began to hoard liquidity (cash and super-safe government debt) and withhold credit from each other. As liquidity dried up, some institutions failed and others reduced their lending to businesses and households, starving the broader economy. When everyone wants liquidity, only the central bank can supply more. Over the next 20 months, Mr Bernanke employed ever more creative means to inject liquidity into the financial markets. He also used conventional monetary policy, eventually cutting short-term interest rates close to zero and attempting to lower long-term interest rates by purchasing bonds. But the Fed needed a functioning financial system to transmit the benefits of such actions to the broader economy.

He was not the only central banker to come to this realisation, or even the first. When the crisis first broke in August 2007, the European Central Bank (ECB) was more aggressive in its initial response, providing at first unlimited cash to euro-zone banks. Similarly, the Fed's decision to throw its weight behind Bear Stearns, American International Group and Citigroup, had its analogues abroad: the Bank of England provided a lifeline for Northern Rock and the Swiss National Bank later backstopped UBS. All central bankers, not just those who are authorities on the Depression, know that in a crisis, the failure of a single financial firm can trigger contagion and the collapse of its counterparties, endangering the entire financial system and economy.

But Mr Bernanke not only acted more quickly and forcefully, he faced unique constraints. Almost by accident the ECB ended up with a modern toolkit: it can lend to far more counterparties against far more types of collateral than the Fed. Europe's economy remains bank-dominated. America's once was, too, and the Fed's tools reflect that: it can ordinarily lend only to banks from its discount window. But America's economy is now dominated by a shadow banking system of investment banks, financial firms and investment funds. Mr Bernanke's staff devoted much of their creativity to overcoming the legal and technical barriers of the Fed's 20th-century charter and, when they hit the limit, convincing Congress and the administration to pick up the baton.

Professional economists have applauded Mr Bernanke's actions, but the public has not. The Fed's approval rating stands at just 30%, lower than any other federal agency and down from 53% in 2003, according to Gallup. Partly this is because the economy has faced a devastating recession that the Fed was meant to prevent. But it also reflects discomfort with the Fed's meddling in private markets.

Central bankers expect to be unpopular, but the Fed is uniquely vulnerable now. A bill in Congress would subject its most sensitive decisions to legislators' scrutiny, while the administration has proposed expanding its regulatory oversight to contain future crises. This has thrust Mr Bernanke into the political

arena: he appears to be at odds with Tim Geithner, the treasury secretary and a former colleague at the Fed, over his proposal to strip the central bank of its consumer-protection duties. Just one senator voted against his confirmation in 2006; between 10 and 25 from both parties may this time, though that will not deny him confirmation.

Mr Obama could have succumbed to partisan priorities as well. The Fed chairman wields enormous influence over all economic policy, not just monetary policy, and a Democrat has not held the job since 1987. Mr Obama had many qualified candidates, from Larry Summers, his adviser and a former treasury secretary, to Janet Yellen, president of the San Francisco Fed. The president went with Mr Bernanke to keep together two principal architects of the response to the crisis—the other is Mr Geithner—and to eliminate market suspicions that he wanted a pliable loyalist in the job. In doing so, he has helped assure Mr Bernanke's legacy of making the chairmanship less political and more technical. You might even say academic.

Buttonwood

A fair share

Aug 27th 2009
From The Economist print edition

Has the tide turned for corporate profits?

Illustration by S. Kambayashi

THE equity bull market had many foundations, including low interest rates and steady global growth. But the strength of corporate profits was a vital component; in 2006 American profits achieved their highest share of GDP since the second world war.

The recent rally in shares has been driven by the low yields available on alternative asset classes like cash and government bonds and by hopes of economic recovery. But if those recovery hopes do not translate into a rebound in profits, it is hard to see how the rally can last.

The American second-quarter results season was undoubtedly better than expected. But it is worth remembering that such positive surprises are quite common, with companies massaging down expectations in the run-up to their figures. David Rosenberg of Gluskin Sheff, a Canadian asset-management firm, says profits were actually down 27.8% year-on-year; analysts are still expecting a 20.6% annual fall in the third quarter having thought there would be a 2.6% rise as recently as the start of the year.

With profits still falling, the rally has thus been driven by a re-rating of the market. Assuming operating earnings hit $50 a share in the third quarter, the S&P 500 index is trading on a price-earnings ratio of 20, the kind of multiple normally associated with boom conditions. Clearly, investors are expecting a robust profits recovery in the years ahead.

But companies are digging themselves out of a deep pit. In terms of operating earnings, the best calendar year for the S&P 500 was 2006, when profits reached $88 a share. According to Citigroup, which has just raised its forecasts, earnings will not regain that level until 2013. The current era rather resembles the biblical dream of seven lean years.

Tim Lee of pi Economics reckons that American profits may be depressed for some time, because the country is headed for a prolonged period of slow growth. This argument depends on a number of assumptions. Is America headed for slow growth and, if so, why? One reason could be a demographic shift, with baby boomers dropping out of the workforce; if labour becomes more scarce, real wages will rise, at the expense of profit margins.

However, other nations are in a worse demographic position. In addition, the conventional explanation for the high share of profits in 2006 was the downward pressure on wages arising from the growing Chinese manufacturing labour force, a factor that is unlikely to disappear soon.

Mr Lee argues instead that America's slow growth will be the consequence of its terrible savings rate—on the grounds that America cannot borrow from abroad to fund its investment for ever, and investment drives the growth rate. The link sounds plausible: take China's regular 9-10% annual growth and its high savings rate. But the relationship is far from automatic. Japan had a high savings rate for years but has suffered dismal growth over the past two decades.

In the short term, a simpler explanation may be that a low savings rate has left American consumers with a heavy debt burden. As consumers try to pay down those debts, the result will be sluggish demand and thus slower growth.

Would that necessarily mean a smaller share for profits within GDP? Mr Lee says slower growth implies a lower return on assets and thus subdued profits. Indeed, a casual look at the ratio of corporate profits to

net assets since the early 1950s shows two peaks: in the mid-1960s and late-1990s, both periods of robust growth. The lows for the ratio came in the stagflationary 1970s.

An obvious explanation for the relationship is operational gearing; companies need a certain level of sales to cover their fixed costs and once that level is reached, margins rise substantially. In a slow-growing economy, that critical level will be reached by fewer firms (although eventually companies will cut their costs to suit the new conditions).

Financial gearing may be another reason. During the boom, companies had access to cheap credit, which increased the number of profitable projects they could fund. The crunch has made banks less able to lend and companies less willing to borrow, at least for a few years.

The details of Mr Lee’s arguments are certainly open to challenge. But he may still have got the direction of change right. After the last profit-share peak in the mid-1960s, the corporate sector suffered a long and dismal decline. A world marked by greater regulation and higher taxes is unlikely to be good for profits.

Economist.com/blogs/buttonwood

Banks in the deep South

Sweaty days

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From The Economist print edition

Georgia's troubled banks

Corbis

There's peanuts left in Georgia

SUMMER in America's deep South is usually a mixture of backyard barbecues, baseball games and sweet tea. This year, however, there has been no respite for regulators trying to contain the banking crisis. On August 21st BBVA, a Spanish lender, agreed to rescue, with government support, Guaranty Bank, a failing Texan firm with $12 billion of deposits. Across the Gulf of Mexico, in sweltering Georgia, things look worse. The state accounts for a fifth of the 100 or so bank failures in America since the start of 2008.

There may be more to come. Each week the Federal Deposit Insurance Corporation (FDIC) announces more failures in America. It has a secret list of more than 300 "problem banks" that are at risk of going broke, most of them small-town lenders. To identify bad banks, analysts are again using the "Texas ratio", which compares non-performing loans to core capital and was popularised in the savings-and-loan crisis two decades ago. An alternative is to track where the FDIC sets up temporary offices. One is in Irvine, California, close to IndyMac Bank, which failed last year. There is a 500-man operation in Jacksonville, Florida, that has been placed deliberately close to Georgia.

What explains the FDIC's modern-day siege of Atlanta? There were "too many banks to begin with," says Dan Blanton, the head of Georgia Bank and Trust, a local community bank. Until the late 1990s most banks were run with county charters which restricted them from branching outside their own small patches of turf. Even today each of Georgia's 159 counties has multiple banks to provide locals with southern hospitality, mortgages and current accounts. According to Joe Brannen of the Georgia Bankers Association, Georgians have "more affection for community banking" than people elsewhere.

Many of these community banks became overextended during the state's economic boom. Over the past decade Georgia's population has grown by 1.5m; thousands are still thought to be moving in each month. Property development surged in tandem. Georgia's small banks were unable to meet the increasing demand for construction loans with slow-growing local deposits, so they began to offer high-yield certificates of deposit to out-of-state customers. As a proportion of funding, Georgia's banks were twice as reliant on these as the average American bank. When the financial crisis struck, this "hot money" quickly left the state.

Although small, community banks were not isolated from systemic problems. They banded together in "participations", a kind of multi-bank loan particularly common in Georgia, thanks to Silverton Bank, a prominent broker of syndicated deals. Known as the "banker's bank", Silverton was founded by a consortium that included about 200 Georgia lenders. When it was forced to liquidate in May, with more than 500 such group loans on its books, it caused a systemic problem for other banks in the state. Some of the defaulted loans were obscure and fiddly. One involved more than 60 Georgian banks funding land acquisitions on the outskirts of Phoenix, Arizona.

Yet whatever the structure of Georgia's industry, the root cause is that bankers just got too optimistic. Banks fail, Mr Blanton says, when they "let the bucket fill up too much." With few healthy banks left locally the most likely buyers of struggling lenders are outsiders, including foreign banks keen to expand their presence or private-equity firms. That latter prospect improved on August 26th when the FDIC agreed to lower restrictions that had been proposed for non-bank investors. Even then, however, for Georgia's banks things are pretty far from being peachy.

Banking bonuses in France

Ça fait malus

Aug 27th 2009 | PARIS
From The Economist print edition

France gets tough on bankers' pay

EARLIER this month BNP Paribas, France's biggest bank, was planning to pay €800m ($1.1 billion) of bonuses to employees in 2009, out of a total bonus pot of €1 billion. That would have left €200m to be paid in future years. BNP reckoned this would satisfy new rules introduced in February which require banks to defer compensation in case trades go wrong. BNP's plans nonetheless caused widespread outrage in France. On August 25th the country's president, Nicolas Sarkozy, told bankers that 50% or more of any bonus award must be held back over no fewer than three subsequent years. BNP will now pay out just €500m upfront.

France's chastened bankers agreed this week to also accept a "pay tsar" to monitor bonuses. Michel Camdessus, a former boss of the IMF, will be the first to hold the post. Mr Sarkozy dubbed a new scheme, under which traders may forgo bonuses depending on banks' overall performance, a *bonus-malus* system. In addition, banks must publish bonus policies, and trading-floor chiefs will cede control over bonuses to board-level remuneration committees. Mr Sarkozy even wants big banks in the G20 countries to cap total bonus payouts to a fraction of their revenues.

All the new rules have put France in a banking labour market all of its own: foreign rivals, after all, are still using multi-year guaranteed bonuses and other pre-crisis lures to poach talent. Britain's Financial Services Authority talks a big game—its chairman Lord Turner recently said the financial industry was "swollen" and proposed a tax on financial transactions. But it has watered down its proposed code on pay, which will now not be compulsory for big banks in London. Mr Sarkozy, on the other hand, will push for broad international adoption of the French model at September's G20 meeting in Pittsburgh.

Surprisingly, French bankers have accepted all of this without much complaint. One reason may be that their top employees are more loyal and less open to poaching. In the event of another financial crisis, they should in theory emerge in better shape than banks whose pay practices encourage excessive risk-taking. "The new rules on bonuses may put us at a short-term disadvantage," says Frédéric Oudéa, chief executive of Société Générale, "but in fact they match our longer-term interest."

China's stockmarket

Another great leap

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From The Economist print edition

Share prices in China are once again unhinged

EVEN critics of China's stockmarket would be hard-pressed to call it dull. After losing almost three-quarters of their value between late 2007 and the end of 2008, shares have gone back on the rampage. They are up by more than 70% this year, and that encompasses a wrenching 15% decline since late July (see chart). Combined, China's two mainland bourses in Shanghai and Shenzhen are second only to America's, measured by the value of domestic listings. Activity is frenetic: the average share in China has changed hands three times so far this year.

Since foreigners are largely barred from investing in the mainland Chinese market, what goes on in Shanghai and Shenzhen used to be largely of interest only to local punters. But now China's position as the only big economy reporting strong growth, and the general scepticism surrounding the accuracy of the government statistics underlying these reports, has transformed the role of its equity market into a potentially unique source of information. Jing Ulrich, a regional strategist for JPMorgan, was bombarded with questions about China's market on recent overseas travels in the hope they could elicit clues about the future course of the economy. Anecdotally at least, global stockmarkets have become more sensitive to Chinese gyrations, on the premise that they reflect real shifts in the country's prosperity which have repercussions everywhere.

Whether this reputation is deserved is an open question. The market's remarkable rise comes with enough caveats to suggest it is priced as much by madness as by reason. On average, shares in China trade at 31 times trailing earnings, double the global average. Although this is less than half the stratospheric valuation that existed prior to the market's crash last year, it can only be justified by remarkably strong and sustained earnings growth.

There is evidence that business conditions are improving in China, but only by going from abysmal to merely bad. According to JPMorgan's calculations, the year-on-year decline in industrial profits has ebbed from a dreadful 37% in February to a still awful 21% in June. The same story holds for the profits of companies listed on China's exchanges. Profits were down by 26% in the first quarter. About half of all companies have reported their figures for the second quarter; earnings declined, on average, by 18% year-on-year.

Share prices should reflect future, not past profits, hence the hope that the rally in China cleverly looks beyond today's problems to better times. In support of this, the consensus estimates of Chinese security analysts are that earnings will rise by 9% this year and 22% in 2010. A big bounce is not unprecedented. Demand for housing, which uncharacteristically (for China) dried up earlier in the year, has rebounded sharply. Only in southern China, hit particularly hard by the collapse in exports, do prices remain below their prior peaks. Retail sales continue to be strong.

Reuters

Taking a break from the serious gambling

But even that sort of growth, if not followed by more of the same, does little to justify current prices and there are any number of reasons to be pessimistic. Exports, a core component of the Chinese economy, remain soft. Critical demand has come from a huge government stimulus plan that, by design, is transient.

Of even greater concern is that much of the market's strength may be the result of the abundant money sloshing around China, rather than a fundamental change in profit expectations. This would help explain why companies with dual listings in Hong Kong and the mainland have seen disproportionately large rises in their mainland shares.

One source of this liquidity is individuals, usually responsible for about three-quarters of all share purchases in China. Capital restrictions limit investment options to bank deposits (at low, government-mandated, rates), property, or the stockmarket. That the vertiginous rise in mainland share prices accompanied a decline in the rate of growth for money in longer-term time deposits suggests small investors may have shifted from the safety of banks to riskier market punts.

More controversially, there is widespread speculation that the tidal wave of bank lending initiated by the government as part of its stimulus plan has made its way into the stockmarket. The proportion of loans going into shares is hotly debated (see article). Executives at Chinese firms and the chastened survivors of other Asian stockmarket collapses worry that despite government restrictions lending trickles into the market indirectly.

Redirecting bank loans is typically a violation of credit agreements, but the main impact of such rules is likely to ensure any diversion is not reported. Recently rumours have circulated that the People's Bank of China has initiated investigations to determine if these claims have merit—a move which, by itself, may have put a damper on the market.

Equally jarring, after an extraordinary lending binge, the country's leading banks are abruptly pulling back on credit expansion, a move that could affect the funds available for investment in the stockmarket, and indirectly undermine the market by reducing the near-term prospects for growth. Rumours are rife that banks' capital requirements are being tightened, as are the conditions for various kinds of loan. A decline in new lending in the second half of the year had been expected; the rate of decline has, for many, been a shock. As share prices rose earlier in the year, numerous private companies and their bankers began the lengthy process of preparing for public offerings. In June debt was abundant and there was every reason to expect equity would soon be as well. Such confidence is now frayed.

China's mainland market has come a long way since its relaunch almost 20 years ago in an old hotel on the Bund in Shanghai. It is now the world's second-largest on most measures, but a second speculative bubble in three years raises real questions about its credibility. The job of a stockmarket is to provide useful signals to help allocate capital. However thrilling, China's market is a long way from doing that.

Chinese bank lending

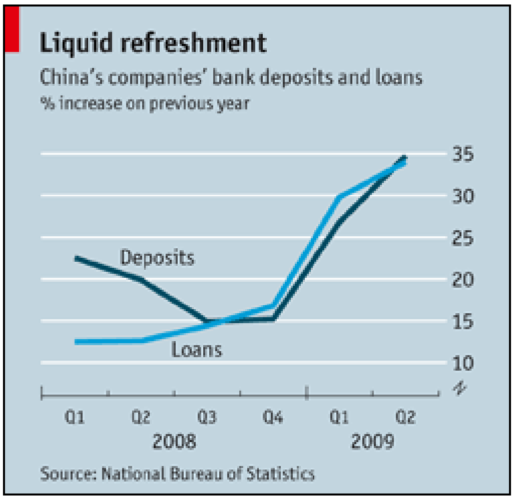
Follow the money

Aug 27th 2009 | HONG KONG
From The Economist print edition

Where has the flood of credit gone?

THE surge in China's bank lending this year partly explains why its economy has recovered much faster than other big economies. If, as many investors fear, the government has already turned off the credit tap, that could hurt economic growth. A closer look at the figures, however, suggests otherwise.

New bank lending did indeed slow sharply in July, to 356 billion yuan ($52 billion) from 1.53 trillion yuan in June. "China's bank lending fell by 77%," screamed the headlines. But bank lending always slows in the second half of the year; the 12-month pace of growth is therefore a better measure. On a year-on-year basis bank lending grew by an impressive 34% in July, roughly the same pace as in June. Moreover, the drop in new loans in July largely reflected a fall in short-term bills; medium and long-term loans to firms and households continued to grow briskly. And a large chunk of lending to firms earlier in the year has been parked in deposit accounts. Thus, despite falling profits, corporate deposits have soared by 35% over the past 12 months (see chart). This leaves firms with plenty of money to finance investment, and so sustain the recovery, even if the government tightens up.



What about the widespread concern that an unhealthy amount of new lending has been used to speculate in asset markets, leaving banks dangerously exposed? Chinese banks are officially not allowed to lend to investors to buy shares, but money is fungible. Firms may divert loans offered for investment to punt on the stockmarket. According to one widely quoted estimate, 20% of all new loans this year have gone into the stockmarket. Add in property and commodities, and up to half of all lending may have ended up in China's asset markets, it is claimed.

Tao Wang, an economist at UBS, reckons that such estimates are nonsense. Based on published data, new inflows of money into the stockmarket and total imports of metals together amounted to 660 billion yuan in the first half of the year. This is equivalent to less than 10% of total new lending, and only a fraction of that could feasibly have been financed by borrowing. A larger share of lending, 12%, went into property, but much of this seems to have been driven by demand from first-time home buyers rather than by speculators.

Some loans certainly found their way into asset markets, says Ms Wang, but most went into the real economy, mainly for infrastructure investment. Even a small amount going into the stockmarket (plus the expectation of a lot going in) could have a big impact on prices. But claims about the scale of such risky lending appear exaggerated.

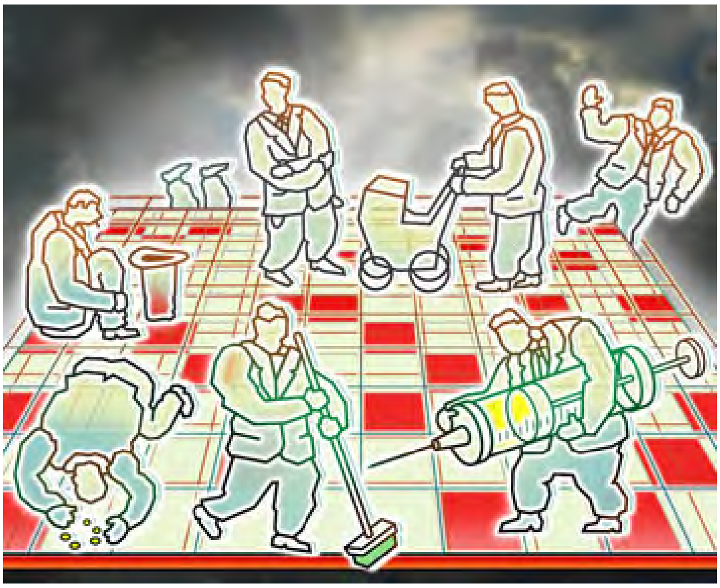
Economics focus

Jackson's Holes

Aug 27th 2009
From The Economist print edition

The financial crisis will change central banking more than many central bankers care to admit

Illustration by Jac Depczyk



COMPARED with the past two crisis-dominated gatherings, the atmosphere at this year's central bankers' meeting in Jackson Hole, Wyoming, was relaxed. Ben Bernanke, the Federal Reserve chairman, whom Barack Obama nominated for a second term on August 25th, found time to go hiking and horse-riding. The mood was one of quiet relief at the signs of economic recovery and not-so-quiet pride at central bankers' role in saving global finance. But below the surface lurked concern and confusion. Many central bankers worried that the recovery would be feeble and fragile. Few have come to terms with how fundamentally the crisis has changed both their tasks and their toolkit.

For the past decade central banking has been dominated by what could be called the "Jackson Hole consensus", since many of its elements were developed during the annual summer shindig organised by the Kansas City Fed. This consensus holds that central bankers' prime task is to keep inflation low and stable. It favours an inflation target as a way to anchor people's expectations of future policy, and puts a lot of weight on the transparency and predictability of central banks' interest-rate decisions.

The consensus was not absolute. The Fed, for instance, has never adopted an explicit inflation target (though it has an implicit one). Some central bankers in Europe and Japan argued that monetary policy should "lean against" asset bubbles, whereas Fed officials thought bubbles were hard to spot, and that it was less costly to clean up by cutting rates after they burst. No one, however, focused much on central bankers' responsibility for broader financial stability, or thought much about the financial plumbing through which changes in short-term interest rates affect the broader economy.

Now, in the wake of the financial crisis, it is commonplace to demand that central banks must worry about the health of the financial system, not just price stability. In many countries there are plans to give them responsibility for "macro-prudential supervision", an ugly term for fretting about financial excesses. Less well understood, though, is how much these new tasks will change the central bankers' world. The main tenet of the Jackson Hole consensus—that central banks earn their credibility by having a simple target which the public understands and to which they are held accountable—will be much harder to maintain.

Unlike price stability (which can be measured by a price index), financial stability is hard to define, let alone measure. Nor is it clear what tools to use. Most central bankers reckon regulation should be the first line of defence, though it is now more widely accepted that rates might also need to rise to stem an asset

bubble. Just what regulations, though, is less clear. Many countries plan tighter rules on liquidity and capital for systemically important firms. But, as Stanley Fischer, governor of the Bank of Israel, pointed out to the Jackson Hole attendees, older tools such as margin requirements or maximum loan-to-value ratios could also be used. Jean-Charles Rochet of the University of Toulouse argued that the whole focus on systemically-important institutions was misguided. Instead, central bankers should guarantee the stability of vital markets (such as the money market).

The difficulty of defining financial stability and the plethora of potential tools means central bankers will, in future, have much more discretion. Their new mandate will also affect the old focus on inflation in ways that are, as yet, ill understood. Mark Carney, the governor of the Bank of Canada, pointed out that rules to promote financial stability, such as higher capital charges for big banks, will affect the process through which monetary policy decisions are transmitted to the broader economy. And using interest rates to promote financial stability means that inflation-targeting central banks may well deviate from their inflation targets for longer periods (for instance, if asset prices are soaring but consumer prices are stable). That is a sensible trade-off, but could compromise the central banks' public credibility.

Another threat to this credibility comes from uncertainty over just how monetary policy works in a world of near-zero interest rates. In the conference's main paper on monetary policy, Carl Walsh, an economist at the University of California at Santa Cruz, was sceptical about the efficacy of quantitative easing and other unconventional measures. But he argued that central bankers could boost output today by promising higher inflation in the future, which they would achieve by pledging to keep interest rates low even after the economy had begun to recover.

One way to do this would be to target a price level, rather than an inflation rate. With a price-level target, central banks would have to follow a period of excessively low inflation with higher inflation in order to get back to the target. But, he argued, central banks could not simultaneously promise to keep interest rates low for an "extended" period of time and promise to keep inflation stable (which is exactly what the Fed is now doing).

Not surprisingly, Fed officials denied there was an inconsistency between keeping inflation stable and rates low for a long time. The point, they argued, was to stop inflation expectations falling, not to push them up. Nonetheless, some central bankers were intrigued by the idea of price-level targeting. Mr Carney, especially, argued that it might prove a good way for central banks to retain their credibility while targeting both price and financial stability. But many, including Mr Walsh, worried that price-level targeting would be harder to explain to the public. Worse, a change in monetary-policy rules in the aftermath of a crisis would itself damage central bankers' hard won credibility.

Unfortunately, this credibility will in any case be under attack. Over the next few years achieving vaguely defined financial stability as well as avoiding both inflation and deflation will only get harder thanks to a nasty backdrop of lower trend growth and high public debt. The Jackson Hole consensus evolved in calmer times. Central banking is now a lot harder.

The virtues of biochar

A new growth industry?

Aug 27th 2009 | BOULDER, COLORADO
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Biochar could enrich soils and cut greenhouse gases as well

Getty Images

CHARCOAL has rather gone out of fashion. Before the industrial revolution, whole forests disappeared into the charcoal-burners' maw to provide the carbon that ironmakers need to reduce their ore to metal. Then, an English ironmaker called Abraham Darby discovered how to do the job with coke. From that point onward, the charcoal-burners' days were numbered. The rise of coal, from which coke is produced, began, and so did the modern rise of carbon dioxide in the atmosphere.

It is a sweet irony, therefore, that the latest fashion for dealing with global warming is to bring back charcoal. It has to be rebranded for modern consumers, of course, so it is now referred to as "biochar". But there are those who think biochar may give humanity a new tool to attack the problem of global warming, by providing a convenient way of extracting CO_2 from the atmosphere, burying it and improving the quality of the soil on the way.

Many of those people got together recently at the University of Colorado, to discuss the matter at the North American Biochar Conference. They looked at various ways of making biochar, the virtues of different raw materials and how big the benefits really would be.

The first inkling that putting charcoal in the ground might improve soil quality came over a century ago, when an explorer named Herbert Smith noticed that there were patches of unusually rich soils in the Amazon rainforest in Brazil. Most of the forest's soil is heavily weathered and of poor quality. But the so-called "terra preta", or "black earth", is much more fertile.

This soil is found at the sites of ancient settlements, but it does not appear to be an accidental consequence of settlement. Rather, it looks as though the remains of burned plants have been mixed into it deliberately. And recently, some modern farmers—inspired by Wim Sombroek, a Dutch soil researcher who died in 2003—have begun to do likewise.

Char grilled

The results are impressive. According to Julie Major, of the International Biochar Initiative, a lobby group based in Maine, infusing savannah in Colombia with biochar made from corn stover (the waste left over when maize is harvested) caused crops there to tower over their char-less peers. Christoph Steiner, of the University of Georgia, reported that biochar produced from chicken litter could do the same in the sandy soil of Tifton in that state. And David Laird, of America's Department of Agriculture, showed that biochar even helped the rich soil of America's Midwest by reducing the leaching from it of a number of nutrients, including nitrate, phosphate and potassium.

All of which is interesting. But it is the idea of using biochar to remove carbon dioxide from the atmosphere on a semi-permanent basis that has caused people outside the field of agriculture to take notice of the stuff. Sombroek wrote about the possibility in 1992, but only now is it being taken seriously.

In the natural carbon cycle, plants absorb CO_2 as they grow. When they die and decompose, this returns to the atmosphere. If, however, they are subjected instead to pyrolysis—a process of controlled burning in a low-oxygen atmosphere—the result is charcoal, a substance that is mostly elemental carbon. Although life is, in essence, a complicated form of carbon chemistry, living creatures cannot process carbon in its elemental form. Charcoal, therefore, does not decay very fast. Bury it in the soil, and it will stay there. Some of the terra preta is thousands of years old.

Moreover, soil containing biochar releases less methane and less nitrous oxide than its untreated counterparts, probably because the charcoal acts as a catalyst for the destruction of these gases. Since both of these chemicals are more potent greenhouse gases than carbon dioxide, this effect, too, should help combat global warming. And the process of making biochar also creates beneficial by-products. These include heat from the partial combustion, a gaseous mixture called syngas that can be burned as fuel, and a heavy oil.

Taking all these things together—the burial of the charcoal and the substitution for fossil fuels of the heat, gas and oil produced by its manufacture—Johannes Lehmann of Cornell University and Jim Amonette of the Pacific Northwest National Laboratory in Washington state suggest that a reduction of between one and two gigatonnes of carbon-emission a year might be achievable. That compares with current annual emissions of some 9.7 gigatonnes. But the truth is that the computer modelling involved in making these estimates is a work in progress, as researchers do not know a lot of pertinent things accurately enough: how much material is available for conversion, for example; how much land is available for biochar to be ploughed into; how much char that land could handle. Dr Amonette's estimate is that 50 tonnes per hectare—a figure larger than that used in most of the experiments conducted so far—could go into soils without harming productivity. Some soils could take even more.

The claims for biochar are not supported by all, however. Biofuels Watch, a British lobby group, worries that a craze for the stuff could see virgin land tilled specifically to grow crops such as switchgrass, whose only purpose was to be pyrolised and buried. That tillage would release carbon dioxide and methane. But the alternative, growing those crops on existing farmland, would encourage the clearance of more land to grow the food crops that had been displaced. Indeed, Kelli Roberts, another researcher at Cornell, told the meeting that, taking all factors into account, growing switchgrass for biochar may do more harm than good. Corn stover, garden waste such as grass clippings, and offcuts from forestry and timber production are better bets, she reckons.

And if sequestration by biochar is deemed sensible, there remains the question of how, exactly, to go about it. Making the charcoal is not a problem. Pyrolising stoves are easy to construct and available models range from the portable to industrial-scale machines costing tens of thousands of dollars. Moreover, Jock Gill of Pellet Futures, a company based in Vermont that makes grass and wood pellets for use as fuel, told the meeting that a teenage protégé of his has invented a stove that can be fed continuously, rather than processing batches of raw material. If that proves successful, it would be a breakthrough of the sort that has enabled other industries (not least ironmaking) to take off in the past.

The benefits of improving their soil should be enough to persuade some farmers to make and bury biochar. Others, though, may need more incentives—probably in the form of carbon "offsets" that compensate for emissions elsewhere. In the rich world, Europe already caps carbon-dioxide emissions, and trades permission to emit the gas. America may soon do so too. CO_2-emitting industries could pay farmers to buy stoves to char and sequester farm waste. That would mean working out how much of what kind of biochar counts as a tonne of CO_2 sequestered, and would also need a lot of policing.

A charcoal sketch

If the details can be nailed down, though, farmers in poor countries could get in on the act too, through the Clean Development Mechanism, a United Nations’ programme that allows rich-world emitters to buy offsets in the poor world. And Lakshman Guruswamy, of the University of Colorado, told the meeting of another advantage if poor-world farmers can be brought in. Many of them burn wood, waste and dung indoors for heating and cooking. The soot released into the air as a consequence is also a climate-changer because, being dark, it absorbs heat. Much worse, though, about 1.6m people are killed each year by inhaling it. But pyrolytic stoves produce almost no soot—the carbon is all locked into the biochar. Worldstove, a firm based in Italy, seeks to provide small and simple pyrolising stoves to poor countries.

It is all, then, an intriguing idea. It certainly will not solve the carbon-dioxide problem, but it could be what Robert Socolow of Princeton University refers to as a wedge—one of a series of slices that, added together, do solve it. And there would be a nice historical justice in the substance that was displaced by coal playing an important role in cleaning up the mess that coal has left behind.

Folic acid

On the pill

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Fortification programmes may lead to overconsumption of folic acid

Alamy

Spinach. Best served with Olive Oyl

MOST people who seek to lead a healthy lifestyle know that they should eat an array of fruits and vegetables every day. But when good intentions go awry, or just as an insurance policy, there are always vitamin pills.

In particular, women hoping to become pregnant are advised in many countries to take double the recommended dose of folic acid. But because some people do not plan their pregnancies, several countries require that the grains used to make bread, breakfast cereals and suchlike be fortified with folic acid.

It has worked. The Centres for Disease Control and Prevention, an American government agency, says that after fortification began, in 1998, the reported prevalence of spina bifida in babies declined by 31%. Research is also going on into whether high doses of the chemical prevent cardiovascular disease, strokes and cognitive decline. But can people consume too much folic acid?

The results of a study published in the *Proceedings of the National Academy of Sciences* suggest they can. Folic acid is a precursor of folate, a vitamin found in foods such as spinach and oranges. It is added to other foods because it was once thought to be the active vitamin. In fact, it is converted to folate in the liver by the addition of four hydrogen atoms.

However, Steven Bailey of the University of South Alabama and Bruce Ames of the University of California, Berkeley, warn that the liver has only a limited ability to make this conversion. This discovery is consistent with reports that unmetabolised folic acid is found in human blood and urine.

The good news is that the recommended daily dose of 0.4 mg is converted into folate in most people. The bad is that the amount put into cereals in America can lead people to consume up to 0.8 mg per standard serving. On top of this, pregnant women may be consuming a similar amount of folic acid from supplement pills.

The researchers warn that intakes of folic acid of more than 1mg a day, from whatever source, will increase the body’s exposure to circulating unmetabolised folic acid. This is not to be recommended, because high doses of folic acid are suspected of exacerbating certain cancers. That concern has led some countries, and the European Union collectively, to put programmes for grain fortification on hold.

Dr Bailey and Dr Ames stress that folic-acid pills are good during pregnancy, and that aspiring mothers should not give them up. But for the rest the message is clear: eat your spinach.

Women, testosterone and finance

Risky business

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Hormones, not sexism, explain why fewer women than men work in banks

Getty Images

THAT the risk-taking end of the financial industry is dominated by men is unarguable. But does it discriminate against women merely because they are women? Well, it might. But a piece of research just published in the Proceedings of the National Academy of Sciences by Paola Sapienza of Northwestern University, near Chicago, suggests an alternative—that it is not a person's sex, per se, that is the basis for discrimination, but the level of his or her testosterone. Besides being a sex hormone, testosterone also governs appetite for risk. Control for an individual's testosterone levels and, at least in America, the perceived sexism vanishes.

Dr Sapienza and her colleagues worked with aspiring bankers (MBA students from the University of Chicago). They measured the amount of testosterone in their subjects' saliva. They also estimated the students' exposure to the hormone before they were born by measuring the ratios of their index fingers to their ring fingers (a long ring finger indicates high testosterone exposure) and by measuring how accurately they could determine human emotions by observing only people's eyes, which also correlates with prenatal exposure to testosterone.

The students were then presented with 15 risky choices. In each they had to decide between a 50:50 chance of getting $200 or a gradually increasing sure payout, which ranged from $50 up to $120. (Some of this money was actually paid over at the end of the experiment, to make the consequences real.) The point at which a participant decided to switch from the gamble to the sure thing was reckoned a reasonable approximation of his appetite for risk.

As the researchers suspected, women and men with the same levels of testosterone generally switched at the same time, demonstrating similar risk preferences. In other words, women who had more testosterone were more risk-loving than women with less, while the data for men at the lower end of the spectrum displayed a similar relationship. Curiously, the relationship between testosterone and risk taking was not as strong for men with moderate to high levels of the stuff, though previous studies have shown this relationship can be significant as well.

In all cases the correlation was strongest when the salivary measure of testosterone was used, suggesting that it is the here and now, rather than the developmental effects of testosterone on the brain, that is making the difference.

The researchers then followed the subjects' progress after they graduated, to see what sort of careers they entered. As expected, men were more likely than women to choose a risky job in finance. Again, though, the difference was accounted for entirely by their levels of salivary testosterone. The researchers also studied the subjects' personal investment portfolios after they had graduated, once in June 2008 (pre-crash) and again in January 2009 (post-crash). In a paper that has yet to be published, they demonstrate that the riskiness of these portfolios, too, was strongly correlated with subjects' responses in the lottery game. The past year has, presumably, been kind to those with low testosterone levels.

Sexual selection in humans

Mr Muscle

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The price and privilege of beefcake

AFP Novosti

The way to hook the ladies?

WHY are men's muscles so much bigger than women's? Partly, of course, because men do the fighting and hunting. But also, perhaps, because women like men who can do these things well, and are thus attracted to muscular men. Both phenomena—competing with members of the same sex and showing off to members of the opposite—are subject to a form of evolution known as sexual selection. It is sexual selection that created the deer's antlers and the peacock's tail, and William Lassek of the University of Pittsburgh and Steven Gaulin of the University of California, Santa Barbara, think it explains men's muscles as well.

The main characteristic of sexually selected features is that they are expensive to maintain. Since, whether competing or attracting, only the best will do, resources get piled into them, almost regardless of the consequences. In a study just published in *Evolution and Human Behavior*, Dr Lassek and Dr Gaulin show that this crucial characteristic is true for men's muscles.

Their data came from the National Health and Nutrition Examination Survey, which followed 12,000 American men and women over the course of six years. They found that men require 50% more calories than women do, even after adjusting for activity levels, and that their muscle mass is the strongest predictor of their intake of calories—stronger than their occupation or their body-mass index (a measure of obesity). And there is another cost to being muscly: men's immune systems are less effective than those of women (which was known before), and become worse the more muscular the men are (which was not).

The benefits, however, were there, as well. The more muscular a man, the more sexual partners he reported, both in the past year and over his lifetime, and the earlier his first sexual experience was likely to have been. This may, in part, be a result of the ability of muscular men to intimidate 97lb weaklings. But in a society where extreme forms of such intimidation are curbed by law, female choice seems as likely an explanation—especially as previous studies have confirmed scientifically the everyday observation that women do indeed prefer men with big biceps and triangular torsos.

Because muscles come at such cost, Dr Gaulin thinks an evolutionary fight is going on between natural selection, which conserves metabolic expenditure and promotes longevity, and sexual selection, which willingly trades both for extra mating opportunities. This may explain why men have such a range of muscularity. In the past, the strong man would have had better mating opportunities in the short term, but the skinny guy who outlived him could have had just as much reproductive success over the course of his longer life.

The irony for the skinny guy is that the laws which protect him from aggression also make it less likely that the hulk will fight himself into an early grave. Modern medicine, meanwhile, means the hulk's weakened immune system is less likely to expose him to lethal infection. Time, then, to get the weights out, and start pumping iron.

Europe and Islam

A treacherous path?

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A pessimist's view of what Islamic immigration may be doing to Europe

Panos

Reflections on the Revolution in Europe: Immigration, Islam and the West. By Christopher Caldwell. *Doubleday; 422 pages; $30. Allen Lane; £14.99*. Buy from Amazon.com, Amazon.co.uk

IN APRIL 1968 Enoch Powell, a Tory cabinet minister, destroyed his political career when he denounced mass immigration as a disaster ("like the Roman", he said, "I seem to see 'the river Tiber foaming with much blood'"). Today Powell's arguments, if not his classical allusions, are becoming dangerously mainstream.

Christopher Caldwell is an American journalist who writes for the liberal *Financial Times* as well as the conservative *Weekly Standard*. He has spent the past decade studying European immigration, travelling widely and reading voraciously in an impressive variety of languages. His controversial new book repeatedly echoes Powell's warnings all those years ago.

Mr Caldwell argues that "Western Europe became a multi-ethnic society in a fit of absence of mind." European policymakers imported people to fill short-term job shortages. But immigrants continued to multiply even as the jobs disappeared: the number of foreign residents in Germany increased from 3m in 1971 to 7.5m in 2000 though the number of foreigners in the workforce did not budge. Today immigrants account for about 10% of the population of most west European countries, and up to 30% in some of Europe's great cities.

Policymakers were even more mistaken about culture than they were about numbers. They assumed that immigrants would quickly adopt the mores of their host societies. But a surprising number of immigrants have proved "unmeltable".

Mr Caldwell argues that the reason why so many immigrants failed to assimilate can be summed up in a single word: Islam. In the middle of the 20th century there were almost no Muslims in Europe. Today there are 15m-17m, making up about half of all new arrivals in Europe.

For the most part European countries have bent over backwards to accommodate the sensibilities of the newcomers. A French law court has allowed a Muslim man to annul his marriage on the ground that his

wife was not a virgin on their wedding night. The British pensions department has a policy of recognising (and giving some benefits to) "additional spouses".

But European public opinion is tiring of such bending. Mr Caldwell cites a poll that shows that only 19% of Europeans think immigration to be a good thing for their country; 57% think that their country has "too many foreigners". Such numbers have recently forced politicians to adjust their policies.

Many countries are tightening their immigration laws, shifting to a skills-based immigration system and setting citizenship tests for would-be immigrants. The French have banned girls from wearing veils in schools. British politicians, such as Tony Blair and Jack Straw, have denounced the veil as a symbol of separation. The old welcome-mat seems to have been replaced by a "Love it or leave it" sign.

For Mr Caldwell this is all a matter of too little too late. Europe's indigenous population is ageing fast, with a quarter of it over 60. Immigrants have large families. Moreover, Europe is no match for Islamic self-confidence: "When an insecure, malleable, relativistic culture meets a culture that is anchored, confident and strengthened by common doctrines, it is generally the former that changes to suit the latter."

Mr Caldwell's unremitting pessimism about Europe raises all sorts of questions, both large and small. Are Europeans really as feeble as he asserts? They have discovered that some principles are non-negotiable in their relations with Islam, particularly women's rights. And is Islam really as self-confident? The willingness of so many Muslims to take offence at any slight—a cartoon here, a novel there—could be a sign of profound cultural anxiety.

Mr Caldwell is also worryingly selective in his use of evidence. He all but ignores the multiple examples of upward mobility and successful integration. He dwells on the fact that many Muslim men feel emasculated by the success of their women without bothering to wonder why so many of the women are successful.

That said, this is an important book as well as a provocative one: the best statement to date of the pessimist's position on Islamic immigration in Europe. Supporters of liberal policies need to sharpen their arguments if they are to prevent neo-Powellism from sweeping all before it.

A biography of Arthur Ransome

Man overboard

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From The Economist print edition

Leeds University Library

In press uniform on the Eastern Front

The Last Englishman: The Double Life of Arthur Ransome. By Roland Chambers. *Faber and Faber; 390 pages; £20*. Buy from Amazon.co.uk

NOWADAYS Arthur Ransome is remembered as the author of children's adventure stories. Published between 1930 and 1947, "Swallows and Amazons" and its sequels recount the thoroughly wholesome adventures of a group of youngsters in Britain's Lake District. The children are resourceful and well-scrubbed; shining advertisements for the benefits of fresh air, sailing and early nights. They are embryonic empire-builders, hardy, self-sufficient and respectful of authority.

The innocent world of "Swallows and Amazons" stands in stark contrast to Ransome's earlier incarnation as a British spy and apologist for the Bolsheviks. Between 1913 and 1924 Ransome lived largely in Russia and the Baltic states, from where he reported on the seismic events of the revolutionary period, for the *Daily News* and later the *Manchester Guardian*. Roland Chambers, in his new book, investigates Ransome's life in these years as he trod the shadowy border between journalism and espionage.

The collapse of the tsarist regime in the March 1917 revolution was welcomed by liberals everywhere. Britain's prime minister, David Lloyd George, expressed "profound satisfaction" at the "resounding victory" for "the principle of liberty". The Bolsheviks' seizure of power in November 1917 was a more menacing development. Bolshevism was seen in the West as a wholly corrosive influence, inimical to social and political stability.

Ransome was one of the very few British journalists who actively defended the regime. Its leaders, Lenin, Trotsky and even Felix Dzerzhinsky, the murderous head of the *Cheka* (the forerunner of the KGB), were all painted in a favourable light in Ransome's copy. He failed to mention the murder of the Romanovs in July 1918 and played down the horrors of Lenin's "red terror" of that year, which cost something like 250,000 lives.

Ransome's access to the Bolshevik elite was partly a result of his long affair with Evgenia Petrovna Shelepina, whom he met while interviewing Trotsky in December 1917. Evgenia was Trotsky's secretary at the time. Although Ransome was still married they soon began living together, eventually marrying in 1924. His links with the Bolsheviks did not pass unnoticed in London and in 1918 he was formally recruited into MI6.

It is possible that Ransome was a double agent, also in the Russian service. Certainly, in 1918 he wrote a propaganda pamphlet for the regime entitled "On Behalf of Russia: An Open Letter to America". In January 1919 he was identified by the Swedish authorities as a Bolshevik and deported with the Russian legation. But this, like so much of Ransome's Russian adventure, is shrouded in doubt, a mystery caused by lingering official secrecy, a fire in 1923 that destroyed his papers and some deliberate refashioning of history by Ransome himself. One way and another, this was so effective that he eventually became "a national treasure, a sort of grade-one-listed author".

Ransome lived from 1884 to 1967 and there were three distinct parts to his life. In 1902 he went to London where, in a self-consciously bohemian manner, he scratched a precarious living on the fringes of the literary world. He successfully defended a libel action against him by Lord Alfred Douglas, Oscar Wilde's former catamite, but that and the souring of his marriage determined him to leave England for Russia in 1913. Much later on he enjoyed the runaway success of his books, which are still in print after

70 years.

Mr Chambers’s readable book concentrates on the middle passage: the time Ransome spent in Russia. Its title, “The Last Englishman”, seems meaningless, even ridiculous. But that apart, it is an enjoyable yarn about a famous author’s incongruous role in a murky, vitally important period of European history.

Nuclear physics

A rush of energy

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Uranium Wars: The Scientific Rivalry that Created the Nuclear Age. By Amir D. Aczel. *Palgrave Macmillan; 256 pages; $27 and £18.99*. Buy from Amazon.com, Amazon.co.uk

THE Janus-faced nature of atomic power has inspired much writing. The hope of almost limitless energy (still not fully realised) was bought at the price of an equally limitless potential for destruction, something that was mastered much more quickly. The latest version of the story, by Amir Aczel, a Boston-based mathematician and science writer, aims at a concise history of the research that led to the discovery of nuclear energy and the uses—both military and civilian—to which it is put.

It is a huge subject. The story spans the theoretical and laboratory investigations of famous scientists (such as Albert Einstein and Marie Curie), the building of the first nuclear reactor, the Manhattan weapon project, the hair-trigger stand-offs of the cold war and the promise and perils of civilian nuclear energy.

There is no lack of material. But there is an ambitious lack of pages. Mr Aczel tries to cram 100 years of the history of both civilian and military nuclear power into a book only 256 pages long. (By contrast, Richard Rhodes's "The Making of the Atomic Bomb", still the best history of the race to build a bomb, takes 928 pages to cover the use of nuclear energy in weapons during the first half of the 20th century.) The result feels rushed. Explanations of fundamental concepts are perfunctory. Details are glossed over, and important characters come and go with little sense of their personalities or motives.

That is a shame because the book covers several new developments of interest to atomic aficionados. Particularly important is the light shed on the American decision to drop two atomic bombs on Japan in 1945. At the time, the justifications were murky: some hoped the terrifying display would avoid what they feared would have been a bloody invasion. Others wanted to test the bombs on which so many billions of dollars had been spent. Still others had their eye on post-war diplomacy, seeking to intimidate the Soviet Union and secure American dominance. Newly declassified files show unambiguously that America was aware of Japanese attempts to sue for peace before the bombs were dropped, undermining the military reasoning for using the weapons.

Mr Aczel's research is thorough and his conclusions interesting. It is all the sadder that the cramped style and brusque pace limit his book's appeal.

Henry Kaufman on financial reform

He told us so

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The Road to Financial Reformation: Warnings, Consequences, Reforms. By Henry Kaufman. *Wiley; 260 pages; $29.95 and £19.99*. Buy from Amazon.com, Amazon.co.uk

OF THE torrent of books being spewed out on the global financial crisis, most fall into one of two categories: the microscopic exploration of a particular episode or scandal, such as the fall of Bear Stearns, or the sweeping attempt to map the meltdown's moving parts and put it all in an historical context.

Henry Kaufman is well placed to deliver the latter, having earned the nickname "Dr Doom"—for his warnings about the dangers of debt bubbles—back in the days when today's doomster-in-chief, New York University's Nouriel Roubini, was still in short trousers. His book is an accessible exposition of the causes and consequences of the market trauma, though some readers may balk at Mr Kaufman's self-congratulatory tone and his failure to come clean about his own role in the mess.

A consultant and former Salomon Brothers grandee, Mr Kaufman ruthlessly dissects the past quarter of a century's financial deregulation. He shows how the loosening of the rules led to a loosening of credit standards and questionable innovations, particularly the securitisation of bank loans, which "created the illusion that credit risk could be reduced if the instruments became marketable." Along the way the public perception of liquidity changed, from one based on assets (what you could sell) to one centred on liabilities (ease of borrowing).

He marvels at how quickly finance forgets, as it did after the near-collapse of Long-Term Capital Management, a highly leveraged hedge fund, in 1998. Soon Wall Street was not only emulating its risky bets but also expanding their scope. Part of the answer, he suggests, is to emphasise the qualitative over the quantitative: business schools should teach financial history before risk-modelling.

He welcomes the eclipse of such cod science, now exposed as useless in times of great upheaval. Another good consequence of the crisis is the revival of household savings. Less agreeable is the explosion of public debt and the acceleration of a decades-long trend: financial concentration. Driving the weak into the arms of the strong may have been expedient, but it swelled the oligopoly of financial conglomerates deemed too big to fail.

Mr Kaufman draws a convincing link between this consolidation and greater market vulnerability. He sees two possible roads to reformation: dismantling the monsters or curbing their riskier activities to the point that they become public utilities, too safe, rather than too big, to fail.

He advocates centralising the supervision of financial firms—as did the Obama administration before it met fierce political opposition to ending the present patchwork of regulators—and reintroducing regulation that forces the industry to strike a balance between its fiduciary duty and its entrepreneurial drive. But he is against concentrating oversight powers in the Federal Reserve, which he sees as having been woefully slow to perceive the structural changes in markets. With or without dramatic reform, the crisis will usher in momentous changes, Mr Kaufman believes, among them a long, secular upswing in American interest rates and a shift from debt to equity in corporate finance.

He showers his argument with supporting facts and figures. Less attractively, he litters the text with references to his own prescience, devoting an entire section to his "prophetic" early warnings. He may have told us so, but does he really have to lay it on so thick? This grates all the more given the omission of less flattering parts of his track record. In all the excitement, he conveniently forgets to point out that he had a seat on Lehman Brothers' board when it sank last September.

A deep thinker on the workings of markets, Mr Kaufman can be forgiven for not wanting to personalise the crisis. But this reviewer will surely not be alone in feeling short-changed by his unwillingness to shed light on the failings of corporate governance that contributed to the humbling of high finance.

The photographs of August Sander

Twentieth-century man

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A photographer who believed he was enabling self-portraits

August Sander Archiv/DACS

Pride in his pastry

"NOTHING is more hateful to me than photography sugar-coated with gimmicks, poses and false effects," wrote August Sander in 1927. "Let me speak the truth in all honesty about our age." Like a lepidopterist, Sander captured and classified his fellow Germans, arranging them by profession, social class and family relationships. In a career spanning 50 years, he observed industrialists, avant-garde artists, communists, circus performers, gypsies and the unemployed with equal detachment, allowing each sitter his dignity.

A new exhibition of Sander's portraits and landscapes opens in Paris on September 9th, along with a book of the same title. The 105-image show, mostly from the 1920s and 1930s, reveals how his unembellished style, free of sentiment or cliché, keeps its powerful fascination.

Sander favoured large-format cameras with lengthy exposure times so he could focus on detail. He described his work as "assisting a self-portrait". A hefty pastry cook, his bulk encased in a white overall, stares at the camera, full of professional pride as he wields his whisk in a giant copper bowl. Three swaggering young Rhineland farmers, on their way to a country dance, turn round to be photographed complete with their hats and canes, one of them dangling a cigarette between his lips. The photographer's friend, Anton Räderscheidt, a Cologne artist, appears in his dark coat and bowler hat set against a deserted city street like a figure from one of his own paintings. Räderscheidt belonged to a school of formal realism that corresponded to Sander's own artistic beliefs.

Another masterpiece captures a bricklayer pausing in the middle of his work with confident grace, his triangular pile of bricks hoisted above his shoulders. Flawless as a classical painting, this photograph appeared in "Face of Our Time", Sander's volume of 60 portraits published in 1929. This was a preview to his great project, "People of the Twentieth Century", on which he laboured until he died in 1964 aged 87. "Face of Our Time" was an international success. But Sander's all-encompassing portraits of German society did not appeal to the Nazis. The authorities destroyed the book's printing blocks, then banned sales of existing copies in 1936.

Despite persecution by the Nazis (his son Erich, a committed Socialist, died in prison in 1944), Sander travelled little, remaining rooted throughout his career in Cologne and the nearby countryside of Westerwald, where his family had mined small iron ore deposits for generations. Born in 1876, he left school at 14 to work in the mines, but a glimpse at the grey clouds through a visiting landscape photographer's viewfinder set the teenager on a different course.

He set up his own studio in Cologne in 1911, building up a lucrative clientele. Bicycling around with his rucksack stuffed with photographic equipment, Sander would approach startled strangers if they interested him as suitable "types" for his pet project. As a critic pointed out in 1959, "There are Sander types, Sander characters everywhere. Even here."

"August Sander: Voir, Observer et Penser" is at the Fondation Cartier-Bresson, Paris, from September 9th to December 20th

A bibliophile's memoir

Out of the dark

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Outside of a Dog: A Bibliomemoir. By Rick Gekoski. *Constable; 278 pages; £14.99*. Buy from Amazon.co.uk

HE STARTED out as Richard A. Gekoski, a gawky American high-schooler focused only on discovering sex, and morphed into R.A. Gekoski (DPhil), a fully fledged, if miserable, academic teaching English literature at a provincial British university. Only in his mid-50s, having abandoned academe and an unhappy marriage, and high-tailed it to London, did he discover who he really was: Rick Gekoski, a roly-poly book dealer with an appetite for all things big and a passion for Groucho Marx's motto: "Outside of a dog, a book is a man's best friend. Inside of a dog, it's too dark to read."

Reading has been Mr Gekoski's guiding light, and "Outside of a Dog" traces his path towards illumination. He has picked 25 books to serve as lamp-posts, beginning with a hymn to all things outsized, Dr Seuss's "Horton Hatches the Egg":

> "My goodness! My *gracious!*" they shouted. "MY WORD! *It's something brand new!* IT'S AN ELEPHANT BIRD!!"

An early baby-boomer, Mr Gekoski comes of age in the company of J.D. Salinger's "The Catcher in the Rye" and Allen Ginsburg's "Howl", delves into psychoanalysis in the dubious company of R.D. Laing, discovers philosophy guided by René Descartes, David Hume and A.J. Ayer and literature with W.B. Yeats and Carl Hiaasen. As a critic, he follows in the footsteps of Matthew Arnold and F.R. Leavis.

Clever, man and boy, Mr Gekoski casts a critical eye on the beat generation, on his own shortcomings, on the rise of feminism and the ever deadening hand of university life. But it is only when he reads and writes with his two children that his quest deepens from a search for knowledge into a recognition of his need for love. He watches and marvels as Quantico-trained Clarice Starling, in Thomas Harris's "The Silence of the Lambs", inspires his daughter to study criminology and write "Murder by Numbers", her own analysis of British serial killers from 1950.

"I do know some things," he writes at the end of "Outside of a Dog". "My books have made me, and through them I know myself and through myself I know them. And nobody can take them away." At 65, Mr Gekoski's greatest wish is to have grandchildren to read to so that he can be "connected once again to my parents, as through my children and my children's children the reading will go on." This is a book for anyone who has ever wondered how many books there might be time to read: funny, wistful and filled with a longing finally satisfied.

Film: "Inglourious Basterds"

Making the unfunny funny

Aug 27th 2009
From The Economist print edition

But better if you don't see this as a film about the Holocaust

Imagenet

Chilling and charming

IT WAS bold of Quentin Tarantino and his producer, Harvey Weinstein, to pre-screen their brutal, wisecracking, revisionist war film at the Museum of Jewish Heritage in New York. In "Inglourious Basterds" the Jews have the last laugh on Hitler—but so bloodthirstily that one might wonder whether the director is trying to say that anyone who enjoys seeing Nazis die horribly en masse is morally no better than they were.

It is a safe bet that the master of post-modern cinematic irony intended nothing so simplistic as this. But what, then, did he intend?

Technically, this film is at least as good as any that Mr Tarantino has made, and richer than any of them in incongruous humour, cinematic insider references and graphic violence. A hit squad of American Jewish soldiers and a French Jewess living in Paris converge in a pair of outlandish plots to kill the Nazi high command. The camera stays firmly in focus during scenes of extraordinarily explicit bloodletting. Yet this reviewer found it impossible not to enjoy them.

This is partly because the film is, at one level, just a good old revenge fantasy, an echo of the superhero comic-book genre. But it is also because Mr Tarantino, although he kills off goodies as well as baddies, works hard to efface sympathy for all of them. Only once do truly innocent people die, and they do so off-camera. For the rest, his characters are either psychotics, such as the charming and chilling SS colonel (played by the superb Christoph Waltz, pictured) and the engaging but equally crazy American officer (Brad Pitt); or cartoon cut-outs such as a suave British agent and a Jewish baseball slugger; or good folk, such as the Jewess and the German who loves her, who are twisted by war into maniacs.

Mr Tarantino may be trying to prove that he, the acknowledged king of detoxified death porn, can make murder fun even in one of the unfunniest chapters in human history. This is a hollow achievement if it depends on keeping the audience entertained but disengaged. Indeed, the nub of many of the negative reviews is that, faced with the Holocaust, Mr Tarantino avoids tricky moral issues.

But perhaps that is to misunderstand this film. Maybe it is not a movie about the Holocaust but a sophisticated piece of self-mockery. The blood-drenched climactic scene, which takes place in a cinema showing another gory war movie, rather supports that view. If it is right "Inglourious Basterds" is a glorious success—just not one worth taking seriously.

Kim Dae-jung

Aug 27th 2009
From The Economist print edition

Kim Dae-jung, Korean dissident-turned-president, died on August 18th, aged 83

Reuters

THE moment had almost come. His wrists had been manacled, his eyes blindfolded. His mouth was stuffed with rags. Groggy with ether, nauseous with the rocking of the boat, he could dimly feel that weights had been attached to his legs. His kidnappers, presumably from the Korean CIA, were discussing what they would do if, instead of sinking, his body floated back up. Then, as Kim Dae-jung explained later,

just when they were about to throw me overboard, Jesus Christ appeared before me with such clarity. I clung to him and begged him to save me. At that very moment, an airplane came down from the sky to rescue me.

Who was really behind the small plane, red light flashing, that warned the kidnappers not to kill him on that day in 1973, is still obscure. But heavenly benevolence was a force Mr Kim devoutly believed in. There were other interventions: the papal letter that saved him from hanging in 1980, and the divine diversion of the heavy truck that deliberately rammed his car in 1971, leaving him with a smashed hip that hobbled him all his days, but alive. Under Korea's post-war dictators, Mr Kim was a dangerous man. For 40 years his left-liberal sympathies kept him in prison, under house arrest or in exile. In his scarce times of emergence, usually attempting to run in rigged elections, he needed all the protection he could get.

His readings of Mencius, an ancient Confucian philosopher (prison affording much time for reading, from Kant to Plato to J.K. Galbraith) convinced him that a ruler too was an envoy from Heaven, sent to bathe his people in charity and justice. That was why when he at last became president, in 1998, he invited to his inauguration the men who had wanted him dead, and forgave them. And that was why on June 13th 2000 he found himself on a red carpet in Pyongyang giving a bear-hug and an air-kiss to Kim Jong-Il, North Korea's dictator, whose quiff of hair stood up with the shock of it. Mr Kim's "sunshine" policy towards the communist North meant not just switching on a light or opening a door but, after Aesop's fable, so flooding a man with warmth and love that he would spontaneously strip his coat off, disarmed.

Love thy neighbour

Thinking of this sort, reinforced by his conversion to Catholicism in the 1950s, encouraged some to see Mr Kim as a suffering saint. One fellow-countryman said he symbolised all the *han*, or deep collective grief, of modern Korea: Japanese colonisation, Soviet and American occupation, dictatorship. The Christian name he chose on conversion, Thomas More, helped the idea along. He was not so impressive to those who saw his heavenly visitations as sheer luck, and his love as naive.

Mr Kim was never expected to become president. He was doubly an outsider: a poor farmer's son from the rocky, neglected south-western coast, and a "street-fighter" whose purpose was to agitate, brewing up seditious pamphlets in kitchens heady with *kimchi* and kerosene, rather than to govern the country. He did well in manifestly unfair elections, winning 46% of the vote in 1971, but when democracy arrived in 1987 his rivalry with another opposition leader, Kim Young-sam, still kept him out of power. It was the Asian fiscal debacle in 1997, when Korea, then the world's 9th-biggest economy, had to be humiliatingly bailed out by the IMF, that swept him into office. Things couldn't get much worse, Koreans felt. Why not give "DJ" a chance?

In office he surprised them: lucky again when the economy bounced back, as it had to, from a 7% contraction to 9% growth in a year, but also introducing human-rights laws and policies that freed up labour markets. As a firm believer in liberal economics, he started to tackle Korea's huge family-owned conglomerates, the *chaebol*, reducing state subsidies to them, encouraging them to cull loss-making operations and to make public their accounts. The press, which he had tried to woo in opposition over regular lunches of sea cucumber, breathed freer air. Under him, South Korea became a democracy in more than name. He was particularly pleased that, on his watch, the country's tear-gas factories all closed down.

Yet the deep, slow, corrupted flow of Korean politics was not much improved by him. In power he unapologetically favoured his home region. The parties he formed, like all Korean parties (in P.J. O'Rourke's words) had "the average life-span of a trout-stream mayfly hatch". His election-winning alliance in 1997, principle laid aside, was with the founder of the KCIA. And the grip of Korea's big companies was not entirely eased. It turned out that $500m, mostly from Hyundai, had preceded Mr Kim's warm welcome in Pyongyang. He responded, typically: "A rich brother should not visit a poor brother empty-handed."

That sunshine policy, too, he defended to the end, even though the northern Kim gave him the runaround, adding nuclear weapons to his "not very likeable" aspects, and even though George Bush mocked his efforts, publicly, at the White House. "The happiness we derive from being Christian", Mr Kim wrote in prison, "consists in loving, not hating, our enemies." His country, and the world, never ceased to be astonished that he meant it.

Overview

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There were fresh signs of life in **America's housing market.** The S&P/Case-Shiller index of national house prices rose by 2.9% in the second quarter, the first such increase since the spring of 2006. A timelier gauge of home prices in 20 big cities rose by 1.4% in June. Sales of new homes surged by 9.6% in July. Sales of existing homes leapt by 7.2% that month to their highest level for almost two years. The stock of unsold existing homes also rose sharply in July, as would-be sellers who had sat tight when the market was depressed put their houses up for sale.

Recovery in the **euro-area economy** is gaining momentum. New orders for industrial goods rose by 3.1% in July. A composite gauge of activity in manufacturing and service industries rose in August from 47.0 to 50.0, the highest level for 15 months.

The index of German business sentiment published by Ifo, a Munich research group, rose to 90.5 in August from 87.4 in July. A breakdown of **Germany's** GDP figures showed that consumer spending rose by 0.7% in the three months to the end of June, the strongest rise since the fourth quarter of 2006.

The **Bank of Israel** unexpectedly raised its benchmark interest rate by 0.25 percentage points, to 0.75%. The bank said its decision would help to temper inflation, which has been above the 1-3% target range. **Hungary's** central bank cut its main interest rate, from 8.5% to 8%, to prop up weak domestic demand. It said it may cut rates further if that did not pose a threat to inflation or to Hungary's access to financing from abroad.

Output, prices and jobs

Aug 27th 2009
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2009†	2010†	latest	latest	year ago	2009†	rate‡, %
United States	−3.9 Q2	−1.0	−2.6	+2.0	−13.1 Jul	−2.1 Jul	+5.6	−0.3	9.4 Jul
Japan	−6.4 Q2	+3.7	−6.4	+1.1	−23.5 Jun	−1.8 Jun	+2.0	−1.1	5.4 Jun
China	+7.9 Q2	na	+8.0	+8.0	+10.8 Jul	−1.8 Jul	+6.3	−0.6	9.0 2008
Britain	−5.6 Q2	−3.2	−4.2	+1.0	−11.0 Jun	+1.8 Jul§	+4.4	+1.8	7.8 May††
Canada	−2.1 Q1	−5.4	−2.2	+1.8	−11.8 May	−0.9 Jul	+3.4	+0.5	8.6 Jul
Euro area	−4.6 Q2	−0.4	−4.4	+0.6	−17.0 Jun	−0.7 Jul	+4.0	+0.5	9.4 Jun
Austria	−4.4 Q2	−1.7	−3.2	+0.2	−11.4 Jun	−0.2 Jul	+3.8	+0.5	4.4 Jun
Belgium	−3.8 Q2	+1.6	−3.5	+0.4	−17.3 May	−1.7 Jul	+5.9	+0.3	11.3 Jun‡‡
France	−2.6 Q2	+1.4	−2.8	+0.8	−12.8 Jun	−0.7 Jul	+3.6	+0.2	9.4 Jun
Germany	−5.9 Q2	+1.3	−5.9	+0.8	−18.0 Jun	−0.5 Jul	+3.3	+0.2	8.3 Jul
Greece	−0.2 Q2	+1.3	−3.5	−0.8	−11.4 Jun	+0.6 Jul	+4.9	+0.5	8.5 May
Italy	−6.0 Q2	−1.9	−5.1	+0.4	−21.9 Jun	nil Jul	+4.1	+0.8	7.3 Q1
Netherlands	−5.1 Q2	−3.4	−4.3	+0.7	−12.7 Jun	+0.2 Jul	+3.2	+1.3	4.8 Jul††
Spain	−4.2 Q2	−4.2	−3.9	−0.6	−14.5 Jun	−1.4 Jul	+5.3	−0.4	18.1 Jun
Czech Republic	−3.4 Q1	−12.9	−3.5	+1.2	−12.2 Jun	+0.3 Jul	+6.9	+1.5	8.4 Jul
Denmark	−4.1 Q1	−4.2	−3.9	+0.6	−18.6 Jun	+1.0 Jul	+4.0	+1.1	3.7 Jul
Hungary	−7.6 Q2	−8.1	−6.3	−1.0	−18.6 Jun	+5.1 Jul	+6.7	+4.3	9.6 Jun††
Norway	−4.8 Q2	−5.0	−2.0	+0.5	−6.3 Jun	+2.2 Jul	+4.3	+2.5	3.0 Jun***
Poland	+0.8 Q1	na	−0.8	+1.5	−4.6 Jul	+3.6 Jul	+4.8	+3.2	10.8 Jul‡‡
Russia	−10.9 Q2	na	−7.0	+2.5	−10.8 Jul	+12.0 Jul	+14.7	+12.1	8.3 Jul‡‡
Sweden	−6.2 Q2	−0.1	−4.9	+1.3	−20.8 Jun	−0.9 Jul	+4.1	−0.2	7.9 Jul‡‡
Switzerland	−2.4 Q1	−16.0	−2.3	+0.4	−9.4 Q1	−1.2 Jul	+3.1	−0.5	3.9 Jul
Turkey	−13.8 Q1	na	−5.6	+2.3	−9.7 Jun	+5.4 Jul	+12.1	+6.2	13.6 May‡‡
Australia	+0.4 Q1	+1.5	nil	+1.8	−3.6 Q1	+1.5 Q2	+4.5	+1.7	5.8 Jul
Hong Kong	−3.8 Q2	+13.9	−5.4	+2.6	−10.2 Q1	−1.5 Jul	+6.3	nil	5.4 Jul††
India	+5.8 Q1	na	+5.5	+6.3	+7.8 Jun	+9.3 Jun	+7.7	+6.0	6.8 2008
Indonesia	+4.0 Q2	na	+4.1	+4.4	+0.2 Jun	+2.7 Jul	+11.9	+4.4	8.1 Feb
Malaysia	−3.9 Q2	na	−5.0	+3.3	−9.6 Jun	−2.4 Jul	+8.5	−0.3	4.0 Q1
Pakistan	+2.0 2009**	na	+3.7	+2.7	−11.0 May	+11.2 Jul	+24.3	+13.0	5.2 2008
Singapore	−3.5 Q2	+20.7	−6.2	+3.2	+12.4 Jul	−0.5 Jul	+6.5	−0.2	3.3 Q2
South Korea	−2.5 Q2	+9.7	−1.8	+2.0	−1.2 Jun	+1.6 Jul	+5.9	+2.6	3.8 Jul
Taiwan	−7.5 Q2	na	−5.7	+2.5	−8.1 Jul	−2.3 Jul	+5.8	−1.3	6.0 Jul
Thailand	−4.9 Q2	+9.6	−4.5	+2.1	−7.8 Jun	−4.4 Jul	+9.2	−1.0	2.4 May
Argentina	+2.0 Q1	+0.2	−3.5	+0.5	−2.7 Jun	+5.5 Jul	+9.1	+6.2	8.8 Q2‡‡
Brazil	−1.8 Q1	−3.3	−1.0	+2.7	−10.9 Jun	+4.5 Jul	+6.4	+4.9	8.0 Jul‡‡
Chile	−4.5 Q2	−1.4	−1.2	+3.0	−8.3 Jun	+0.3 Jul	+9.5	+1.9	10.7 Jun††‡‡
Colombia	−0.6 Q1	+0.9	−1.0	+2.5	−6.6 Jun	+3.3 Jul	+7.5	+4.8	11.4 Jun‡‡
Mexico	−10.3 Q2	−4.4	−7.1	+2.8	−10.6 Jun	+5.4 Jul	+5.4	+5.5	5.2 Jun‡‡
Venezuela	−2.4 Q2	na	−4.2	−2.7	+11.4 Mar	+28.3 Jul	+33.7	+26.6	7.7 Q2‡‡
Egypt	+4.2 Q1	na	+4.4	+4.0	+5.8 Q1	+9.8 Jul	+22.2	+9.7	9.4 Q1‡‡
Israel	+0.1 Q2	+1.0	−1.1	+1.5	−8.6 Jun	+3.5 Jul	+4.8	+3.1	7.6 Q1
Saudi Arabia	+4.5 2008	na	−1.0	+3.3	na	+5.2 Jun	+10.6	+4.3	na
South Africa	−2.8 Q2	−3.0	−2.2	+3.1	−17.1 Jun	+6.7 Jul	+13.4	+7.1	23.6 Jun‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	−16.6 Q2	na	−13.0	−3.0	−30.1 Jun	−0.7 Jul	+11.1	−0.8	17.0 Jun
Finland	−7.6 Q1	−10.3	−5.7	−0.1	−20.3 Jun	−0.6 Jul	+4.3	+0.1	8.9 Jul
Iceland	−3.9 Q1	−13.6	−6.5	+0.4	+10.1 2008	+11.3 Jul	+13.6	+12.5	8.0 Jul‡‡
Ireland	−8.5 Q1	−5.7	−7.7	−2.6	+2.6 Jun	−5.9 Jul	+4.4	−3.6	12.2 Jul
Latvia	−18.0 Q1	na	−17.0	−4.0	−18.5 Jun	+2.5 Jul	+16.6	+3.0	17.2 Jun
Lithuania	−22.4 Q2	−40.8	−15.0	−4.5	−15.7 Jul	+3.0 Jul	+12.2	+5.3	9.7 Jul‡‡
Luxembourg	−5.5 Q1	−5.9	−4.9	−0.8	−19.7 May	−0.7 Jul	+4.9	+0.5	5.4 Jun‡‡
New Zealand	−2.2 Q1	−2.7	−2.1	+0.7	−11.4 Q1	+1.9 Q2	+4.0	+1.8	6.0 Q2
Peru	−2.1 Jun	na	+1.3	+2.7	−12.2 Jun	+2.7 Jul	+5.8	+3.5	7.9 Jul‡‡
Philippines	+1.2 Q2	+9.8	−1.0	+3.7	−10.8 Jun	+0.2 Jul	+12.3	+2.9	7.5 Q2‡‡
Portugal	−3.7 Q2	+0.7	−4.1	−0.4	−9.5 Jun	−1.5 Jul	+3.1	−0.7	9.1 Q2‡‡
Slovakia	−5.3 Q2	na	−5.5	+0.7	−19.6 Jun	+2.5 Jul	+4.9	+1.8	12.1 Jul‡‡
Slovenia	−8.5 Q1	na	−6.0	nil	−22.3 Jun	−0.6 Jul	+6.9	+1.1	9.1 Jun‡‡
Ukraine	−20.3 Q1	na	−17.0	+1.0	−27.5 Jun	+15.5 Jul	+26.8	+16.0	2.4 Jun
Vietnam	+4.5 Q2	na	+4.2	+4.8	+7.6 Jul	+2.0 Aug	+28.3	+6.8	4.6 2007

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate -1.4 in July. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Aug 27th 2009
From The Economist print edition

The Economist commodity-price index

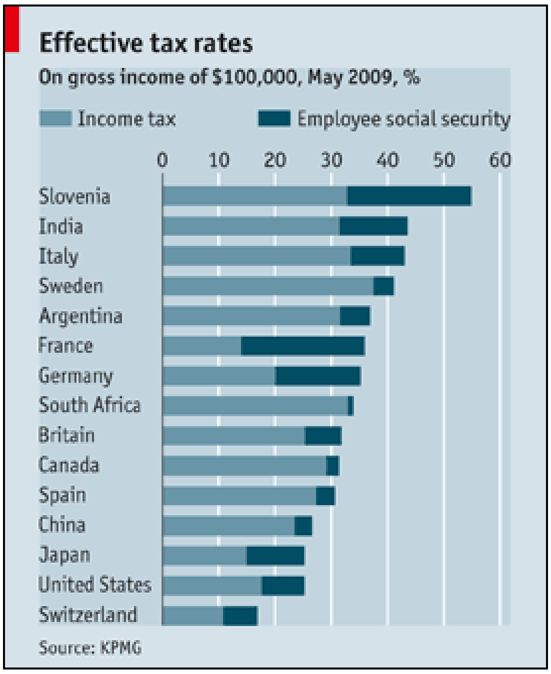
2000=100

	Aug 18th	Aug 25th*	% change on one month	% change on one year
Dollar index				
All items	189.8	194.4	+4.1	-19.8
Food	192.8	200.0	+1.2	-19.9
Industrials				
All	185.9	187.3	+8.5	-19.7
Nfa†	143.0	146.9	+7.0	-22.3
Metals	209.3	209.3	+9.1	-18.7
Sterling index				
All items	174.1	180.1	+4.7	-9.9
Euro index				
All items	124.4	125.5	+3.0	-18.0
Gold				
$ per oz	935.30	942.90	-1.1	+13.9
West Texas Intermediate				
$ per barrel	69.18	71.88	+6.8	-38.1

*Provisional †Non-food agriculturals.

Effective tax rates

Aug 27th 2009
From The Economist print edition



A person earning $100,000 in Sweden has 37.5% of it deducted as income tax, according to an annual survey of effective tax rates by KMPG, an accounting firm. Sweden's income-tax rates are among the world's highest, but the addition of social-security contributions means that people earning this sum in Slovenia, India or Italy take home an even smaller share of their gross earnings. Slovenia's government deducts almost 55% from earnings of $100,000. Social-security levies eat up a chunky 22% of earnings at that level in France, but low income taxes bring the total take, at 36%, into line with that in other rich nations. Switzerland's effective tax rate on the fairly well-off is one of the lowest in the world.

Trade, exchange rates, budget balances and interest rates

Aug 27th 2009
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2009†	Currency units, per $ Aug 26th	Currency units, per $ year ago	Budget balance % of GDP 2009†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−639.5 Jun	−628.3 Q1	−3.0	–	–	−13.7	0.21	3.45
Japan	+9.0 Jun	+115.3 Jun	+2.5	94.3	110	−7.9	0.40	1.32
China	+269.4 Jul	+426.1 Q4	+6.5	6.83	6.84	−4.1	1.73	3.70
Britain	−139.8 Jun	−52.5 Q1	−1.7	0.62	0.54	−14.4	0.75	3.67
Canada	+15.5 Jun	−3.9 Q1	−2.3	1.10	1.05	−2.3	0.20	3.40
Euro area	−40.1 Jun	−158.1 May	−1.3	0.70	0.68	−6.4	0.83	3.23
Austria	−5.5 May	+10.7 Q1	+1.6	0.70	0.68	−5.2	0.83	3.65
Belgium	+6.3 May	−11.8 Mar	−2.4	0.70	0.68	−6.0	0.85	3.67
France	−71.1 Jun	−58.3 Jun	−2.1	0.70	0.68	−8.2	0.83	3.42
Germany	+182.0 Jun	+159.9 Jun	+3.7	0.70	0.68	−4.7	0.83	3.23
Greece	−50.6 Jun	−41.6 Jun	−8.5	0.70	0.68	−6.8	0.83	4.42
Italy	−11.9 May	−62.8 Jun	−2.8	0.70	0.68	−5.4	0.83	4.02
Netherlands	+43.5 Jun	+50.0 Q1	+6.1	0.70	0.68	−4.2	0.83	3.51
Spain	−92.5 Jun	−117.2 May	−7.1	0.70	0.68	−10.3	0.83	3.70
Czech Republic	+4.3 Jun	−4.7 Jun	−2.0	17.9	16.7	−4.8	1.86	5.00
Denmark	+6.2 Jun	+8.1 Jun	+1.5	5.23	5.07	−2.5	1.91	3.54
Hungary	+2.0 Jun	−11.3 Q1	−2.9	189	160	−4.3	7.94	8.30
Norway	+58.0 Jul	+79.6 Q1	+14.6	6.08	5.38	7.1	1.98	4.21
Poland	−13.5 Jun	−11.7 Jun	−3.3	2.89	2.27	−3.9	4.17	6.08
Russia	+122.2 Jun	+55.3 Q2	+1.9	31.6	24.6	−8.0	10.75	11.42
Sweden	+12.9 Jul	+31.4 Q1	+6.7	7.12	6.40	−4.7	0.14	3.39
Switzerland	+15.8 Jul	+56.6 Q1	+7.4	1.07	1.10	−3.1	0.32	1.96
Turkey	−47.4 Apr	−20.3 Jun	−0.4	1.51	1.19	−5.8	8.42	6.11‡
Australia	+5.7 Jun	−29.8 Q1	−4.0	1.21	1.17	−3.9	3.35	5.37
Hong Kong	−21.0 Jul	+29.6 Q1	+9.2	7.75	7.81	−3.9	0.21	2.29
India	−93.4 Jun	−29.8 Q1	−1.2	48.9	43.8	−7.8	3.35	7.62
Indonesia	+11.2 Jun	+4.4 Q2	+1.2	10,025	9,160	−2.8	7.03	6.52‡
Malaysia	+38.2 Jun	+40.5 Q1	+14.1	3.52	3.38	−8.0	2.14	2.11‡
Pakistan	−16.3 Jul	−12.2 Q1	−3.2	82.8	76.1	−4.3	12.51	11.63‡
Singapore	+18.4 Jul	+21.4 Q2	+14.4	1.45	1.42	−4.1	0.50	2.27
South Korea	+21.9 Jul	+20.7 Jun	+3.2	1,245	1,084	−5.0	2.51	5.30
Taiwan	+15.9 Jul	+31.9 Q2	+10.3	32.9	31.5	−5.2	0.85	1.33
Thailand	+11.3 Jul	+8.1 Jun	+5.2	34.0	34.1	−5.6	1.38	3.13
Argentina	+17.5 Jul	+6.8 Q1	+3.4	3.85	3.03	−0.9	14.13	na
Brazil	+27.1 Jul	−17.9 Jul	−1.3	1.87	1.62	−2.8	8.65	6.16‡
Chile	+4.5 Jul	−3.6 Q2	−0.9	549	519	−4.0	0.48	2.38‡
Colombia	−0.1 Jun	−6.5 Q1	−3.3	2,046	1,885	−3.0	5.10	5.63‡
Mexico	−16.0 Jul	−14.0 Q2	−2.7	13.1	10.1	−4.0	4.47	8.09
Venezuela	+18.5 Q2	+10.3 Q2	+1.4	6.40	3.65§	−7.6	14.50	6.55‡
Egypt	−26.1 Q1	−2.9 Q1	−1.8	5.53	5.38	−6.8	9.63	2.81‡
Israel	−8.7 Jul	+4.1 Q1	+1.7	3.80	3.58	−5.7	0.56	4.23
Saudi Arabia	+212.0 2008	+134.0 2008	+4.5	3.75	3.75	−0.5	0.65	na
South Africa	−5.4 Jun	−18.7 Q1	−5.3	7.87	7.76	−4.5	7.00	8.62
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−2.2 Jun	−0.5 Jun	+0.7	11.0	10.6	−3.5	5.78	na
Finland	+5.6 Jun	+3.1 Jun	+1.0	0.70	0.68	−2.6	0.81	3.52
Iceland	+0.7 Jul	−6.1 Q1	−5.9	130	82.7	−13.3	7.92	na
Ireland	+49.8 Jun	−11.3 Q1	−3.0	0.70	0.68	−13.0	0.83	4.65
Latvia	−3.8 Jun	−0.7 Jun	+2.0	0.49	0.48	−11.0	9.40	na
Lithuania	−3.9 Jun	−1.5 Jun	−0.3	2.43	2.35	−6.9	7.62	na
Luxembourg	−6.9 Jun	+2.2 Q1	na	0.70	0.68	−4.0	0.83	na
New Zealand	−2.1 Jul	−11.8 Q1	−7.1	1.47	1.43	−6.7	3.70	5.72
Peru	+2.3 Jun	−3.8 Q1	−2.3	2.96	2.95	−2.3	1.25	na
Philippines	−6.9 Jun	+5.1 Mar	+4.5	48.7	45.7	−3.1	4.19	na
Portugal	−28.2 Jun	−24.2 Jun	−8.8	0.70	0.68	−7.4	0.83	3.84
Slovakia	−0.3 Jun	−4.1 Jun	−7.0	21.2	20.6	−5.5	1.35	3.91
Slovenia	−2.9 Jun	−1.9 May	−1.6	0.70	0.68	−5.7	0.83	na
Ukraine	−13.4 Q1	−6.5 Q2	−0.5	8.48	4.66	−7.0	13.60	na
Vietnam	−6.6 Aug	−7.0 2007	−6.9	17,815	16,590	−9.0	8.71	6.13

*Merchandise trade only. †The Economist poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Bloomberg; Thomson Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Markets

Aug 27th 2009
From The Economist print edition

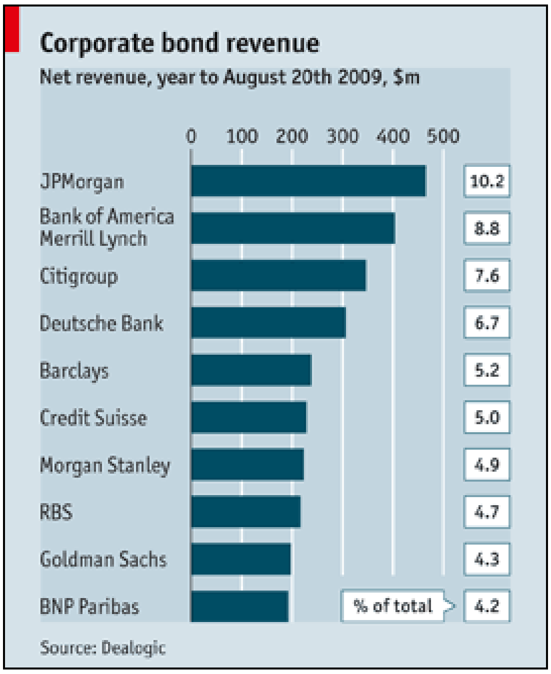
Markets

	Index Aug 26th	% change on one week	% change on Dec 31st 2008 in local currency	% change on Dec 31st 2008 in $ terms
United States (DJIA)	9,543.5	+2.8	+8.7	+8.7
United States (S&P 500)	1,028.1	+3.2	+13.8	+13.8
United States (NAScomp)	2,024.4	+2.8	+28.4	+28.4
Japan (Nikkei 225)	10,639.7	+4.3	+20.1	+15.4
Japan (Topix)	975.6	+3.4	+13.5	+9.1
China (SSEA)	3,114.5	+6.5	+62.9	+62.7
China (SSEB, $ terms)	202.2	+7.9	+82.5	+82.3
Britain (FTSE 100)	4,890.6	+4.3	+10.3	+24.4
Canada (S&P TSX)	10,912.2	+2.1	+21.4	+36.5
Euro area (FTSE Euro 100)	860.3	+6.1	+15.3	+18.0
Euro area (DJ STOXX 50)	2,788.9	+6.3	+13.9	+16.7
Austria (ATX)	2,504.3	+6.7	+43.0	+46.4
Belgium (Bel 20)	2,400.2	+6.0	+25.8	+28.7
France (CAC 40)	3,668.3	+6.3	+14.0	+16.7
Germany (DAX)*	5,522.0	+5.5	+14.8	+17.5
Greece (Athex Comp)	2,545.7	+8.3	+42.5	+45.9
Italy (S&P/MIB)	22,554.7	+6.7	+15.9	+18.7
Netherlands (AEX)	298.6	+5.1	+21.4	+24.3
Spain (Madrid SE)	1,189.3	+6.5	+21.9	+24.8
Czech Republic (PX)	1,167.7	+3.9	+36.1	+46.8
Denmark (OMXCB)	315.6	+5.7	+39.5	+42.9
Hungary (BUX)	19,539.3	+7.3	+59.6	+61.7
Norway (OSEAX)	358.5	+3.8	+32.7	+52.9
Poland (WIG)	38,215.9	+7.3	+40.4	+43.9
Russia (RTS, $ terms)	1,072.1	+7.9	+75.6	+69.7
Sweden (OMXS30)†	902.8	+3.9	+36.3	+51.4
Switzerland (SMI)	6,177.0	+3.3	+11.6	+11.1
Turkey (ISE)	46,959.8	+2.9	+74.8	+79.1
Australia (All Ord.)	4,464.4	+1.8	+22.0	+44.4
Hong Kong (Hang Seng)	20,456.3	+2.5	+42.2	+42.2
India (BSE)	15,769.9	+6.5	+63.5	+62.8
Indonesia (JSX)	2,380.1	+4.5	+75.6	+90.9
Malaysia (KLSE)	1,172.6	+1.5	+33.7	+31.3
Pakistan (KSE)	8,319.7	+4.6	+41.9	+35.6
Singapore (STI)	2,628.4	+4.2	+49.2	+48.6
South Korea (KOSPI)	1,614.1	+4.4	+43.5	+45.2
Taiwan (TWI)	6,719.2	−1.0	+46.3	+45.9
Thailand (SET)	658.3	+4.3	+46.3	+49.6
Argentina (MERV)	1,778.3	+2.9	+64.7	+47.8
Brazil (BVSP)	57,765.0	+2.9	+53.8	+91.9
Chile (IGPA)	15,430.7	−0.1	+36.3	+58.3
Colombia (IGBC)	10,671.2	+1.9	+41.1	+55.1
Mexico (IPC)	28,212.9	+2.2	+26.1	+33.1
Venezuela (IBC)	49,148.1	+2.7	+40.1	+50.8
Egypt (Case 30)	6,782.5	+9.6	+47.6	+47.0
Israel (TA-100)	924.1	+6.1	+63.8	+63.0
Saudi Arabia (Tadawul)	5,762.8	+2.5	+20.0	+20.1
South Africa (JSE AS)	25,113.9	+3.5	+16.8	+37.2
Europe (FTSEurofirst 300)	973.9	+4.5	+17.1	+19.8
World, dev'd (MSCI)	1,086.6	+3.4	+18.1	+18.1
Emerging markets (MSCI)	851.9	+3.5	+50.2	+50.2
World, all (MSCI)	275.8	+3.4	+21.1	+21.1
World bonds (Citigroup)	820.3	nil	+1.3	+1.3
EMBI+ (JPMorgan)	462.9	+0.6	+18.2	+18.2
Hedge funds (HFRX)§	1,107.9	+0.4	+8.6	+8.6
Volatility, US (VIX)	25.0	26.3	40.0	(levels)
CDSs, Eur (iTRAXX)‡	104.7	−13.7	−48.2	−47.0
CDSs, N Am (CDX)‡	170.0	−4.3	−27.2	−27.2
Carbon trading (EU ETS) €	15.2	+2.2	−5.8	−3.5

*Total return Index. †New series. ‡Credit-default swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Thomson Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. §Aug 25th

Corporate-bond revenue

Aug 27th 2009
From The Economist print edition



Non-financial companies have issued $1.1 trillion-worth of bonds so far this year, according to Dealogic, a financial-analysis firm. That figure already exceeds the annual record of $898 billion set in 2007. Fee income for the banks that arrange the issues has surged by 35% from 2008 levels to $4.6 billion. But it is a competitive global market. The leading ten arrangers have earned less than 65% of total fees, and only one bank, JPMorgan, which scooped more than $450m, has a market share above 10%. More than 40% of the fees have been earned in America. France and Germany have been the next biggest markets. Two health-care companies, Pfizer and Roche, have together generated more than $200m in fees.